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Introduction

With City of San Jose (City) and Redevelopment Agency operating and capital budgets of over \$1 billion a year, the members of the San Jose City Council need an effective means to monitor the use of tax dollars and City and Redevelopment Agency activities and programs. As an independent audit function, the Office of the City Auditor (Auditor’s Office) plays an integral role in the oversight process. Findings and recommendations developed through the audit process have helped save tax dollars, increase revenue, and improve the management of City and Redevelopment Agency programs. Additionally, our independent reviews have served as an important, objective information source for the City Council, City management, the Redevelopment Agency, and the general public.

Authority And Responsibility

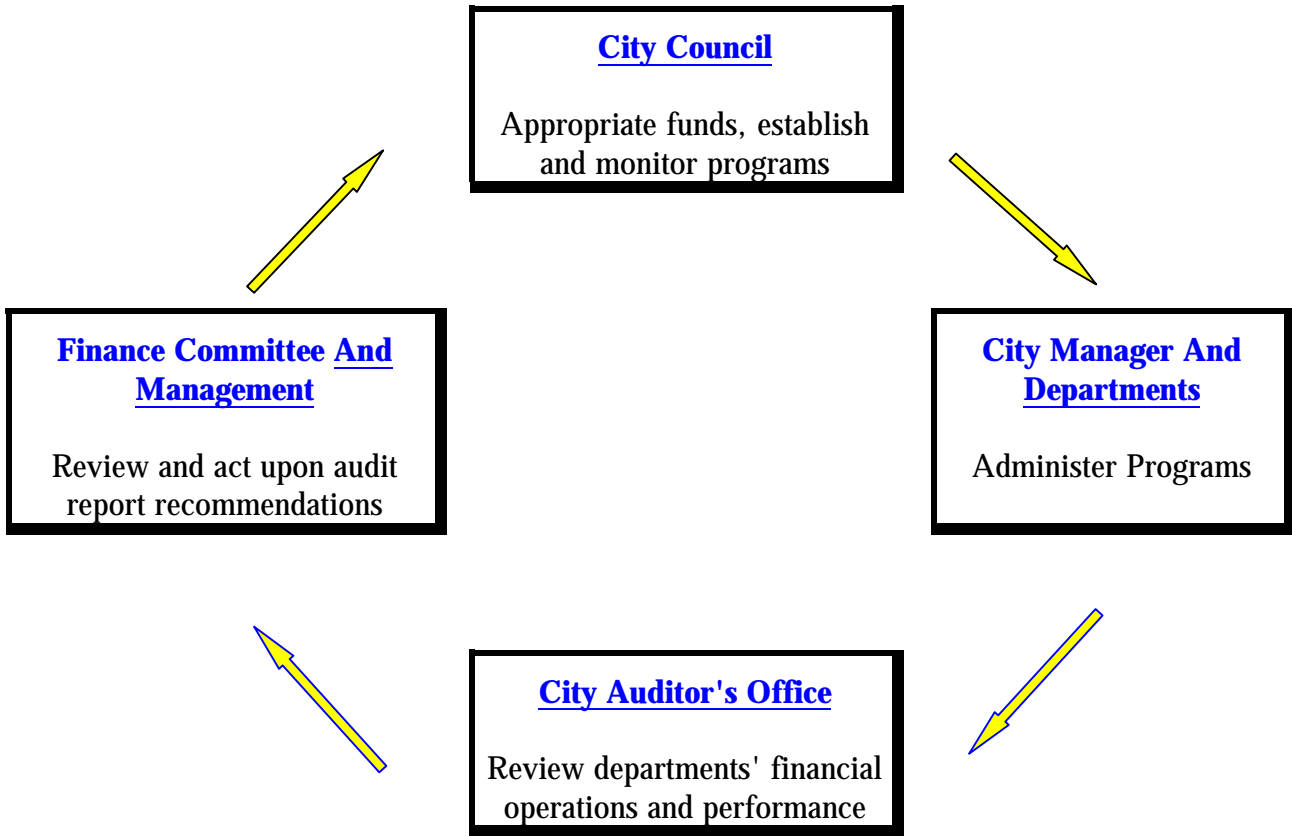
The San Jose City Charter prescribes the powers and duties of the Auditor’s Office. Section 805 of the Charter grants to the City Council the authority to appoint the City Auditor. The Charter also outlines the City Auditor's primary duties as follows:

- Conduct or cause to be conducted annual post audits of all the City's fiscal transactions and accounts kept by or for the City including the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures;
- Conduct performance audits, as assigned by the City Council, to determine whether (1) City resources are being used in an economical, effective, and efficient manner; (2) established objectives are being met; and (3) desired results are being achieved;
- Conduct special audits and investigations as assigned by the City Council;
- Submit a monthly report to the City Council of the Office activities, findings, and recommendations to improve the administration of the City's fiscal affairs; and
- Perform other such auditing functions consistent with the City Charter and submit reports as required.

Section 805 also grants the City Auditor access and authority to examine all records of any City department, office, or agency, except those of an elected official of the City.

Mission And Core Services	The Mission and Core Services of the City Auditor’s Office are as follows:
<i>Mission Statement:</i>	To independently assess and report on the quality of City operations and services.
<i>Core Services:</i>	<p>Audit Services</p> <p>To identify ways to increase the economy, efficiency, effectiveness, and accountability of City government and provide independent, reliable, accurate, and timely information to the City Council and other stakeholders.</p> <p>Revenue Audits</p> <p>To obtain and analyze information from numerous data sources to ensure that the City of San Jose receives all of the revenues to which it is entitled.</p>

Role Of Auditing In City Government	The City Auditor's audits and reviews provide insight into City departments, offices, agencies, and their programs. Such audits and reviews are but one step in the process of establishing City programs, evaluating their performance, providing the City Council and City Administration with needed information, and making any necessary changes to ensure that City programs are as efficient and effective as possible. Exhibit 1 describes the role of auditing in City government.
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Exhibit 1 Role Of Auditing In City Government

Auditing City Departments And Programs

The Auditor's Office performs or coordinates audits and studies according to government auditing standards promulgated by the United States General Accounting Office (See Appendix A). The following describes the scope of work performed.

Financial Audits

Financial audits include financial statement and financial related audits. Financial statement audits provide reasonable assurance that the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Financial related audits determine whether (a) financial information is presented in accordance with established or stated criteria, (b) the entity has adhered to specific financial compliance requirements, or (c) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

In accordance with the City Charter, an independent accounting firm conducts the financial statement and financial related audits of the City of San Jose. The Auditor's Office coordinates the work of the independent accounting firm. The annual audit determines whether the financial statements fairly present the City's financial condition according to generally accepted accounting principles. The annual financial audit also includes reviews to determine City compliance with laws and regulations, particularly for those programs receiving federal funding.

The nature and scope of the financial audits the Auditor's Office performs differ significantly from the outside audit of the City's financial statements. The primary emphasis of the financial audits the Office conducts is to assess whether the City's internal control systems ensure the following:

- Resources are used in accordance with laws, regulations, and policies;
- Reliable data are obtained, maintained, and properly disclosed in financial and management reports; and
- Resources are safeguarded against loss due to fraud, theft, errors, and mismanagement.

These audits provide City management with the objective information required to ensure that internal control systems are working as intended.

**Performance
Audits**

Performance audits include economy and efficiency audits and program audits. Economy and efficiency audits determine (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (2) the causes of inefficiencies or uneconomical practices; and (3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

Program audits determine (1) the extent to which City Council-established desired results or benefits are being achieved; (2) the effectiveness of audited organizations, programs, activities, or functions; and (3) whether the audited entity has complied with laws and regulations applicable to the program.

Audits that focus on efficiency issues typically evaluate the reasonableness of program costs relative to the results of services produced. Auditors may assess the relationship between staffing and other costs and measurable program benefits. Auditors may also (1) determine if a program has established appropriate goals and objectives, (2) review the adequacy of management's system for measuring success, (3) assess the extent to which desired levels of results are achieved, and (4) identify factors that inhibit satisfactory performance.

Audit reports usually make recommendations to management to correct inefficient practices and/or improve procedures to maximize resource utilization and productivity. The reports may also make recommendations to change management systems, City policies, and ordinances.

Special Studies

The Auditor's Office is occasionally requested to do thorough and impartial data collection, analysis, and reporting. The Office produces special studies to address these information needs. Special studies and reports are subject to the same rigorous audit methodology regarding data collection and quality control reviews. Special studies are intended to provide timely and objective information to the City Council, City Administration, and the public.

Sales And Business Tax Audit	<p>In July 1994, the Auditor's Office initiated a continuous audit of sales and business taxes. The objectives of this audit are to identify</p> <ul style="list-style-type: none">• San Jose retail businesses that do not file sales tax returns;• Misallocation of the local portion of the sales taxes paid by San Jose businesses; and• San Jose businesses that have paid sales taxes but not the San Jose business tax.
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Audit Recommendations Follow-up	<p>It is the policy of the City that audit reviews be conducted and that any resulting recommendations be implemented or otherwise resolved to the satisfaction of the City Manager, the City Auditor, and the City Council. Accordingly, the Auditor's Office, in coordination with the City Administration, monitors the implementation of audit recommendations. The City Auditor prepares a semi-annual follow-up report on the status of all unimplemented City Council-approved audit recommendations.</p>
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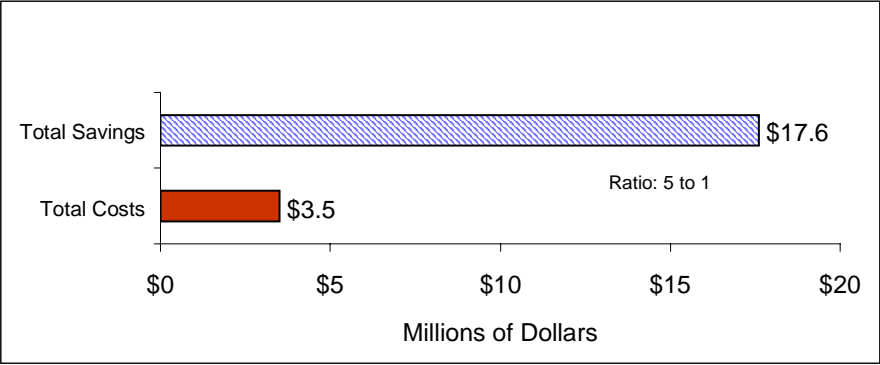
Benefits To The City Of San Jose

The City Auditor's expanded audit approach has benefited the City of San Jose in a variety of ways. Some audits have resulted in recommendations to reduce costs or increase revenues. Other audits have resulted in recommendations to increase effectiveness, use resources more efficiently, and improve internal controls, or provided objective, timely information to the City Council, City Administration, and the public.

Cost Savings And Increased Revenues

A principal objective of the Auditor's Office is to identify \$3 in savings or increased revenue for every \$1 of audit cost. The Office significantly exceeded this objective from July 1997 through June 1999 by achieving an audit payback ratio of over \$5 in cost savings or increased revenue for every \$1 of audit cost. As shown in Exhibit 2, from July 1997 through June 1999, the Auditor's Office identified an estimated \$17.6 million in opportunities for the City to increase revenues or reduce costs. In our opinion, the \$17.6 million is conservative. We included only the first year of identified cost savings or additional revenues when, in fact, some of these savings or revenues will be realized year after year. For that same two-year period, audit costs were approximately \$3.5 million.

Exhibit 2 Savings/Revenues Vs. Costs – July 1997 Through June 1999



As Exhibit 3 shows, from May 1985 through June 1999, the Auditor's Office identified \$110.5 million in cost savings or revenue enhancements against \$16.3 million in audit costs, achieving a 14-year audit payback ratio of \$7 in cost savings or increased revenue for every \$1 of audit cost.

Exhibit 3 Savings/Revenues Vs. Costs – May 1985 Through June 1999

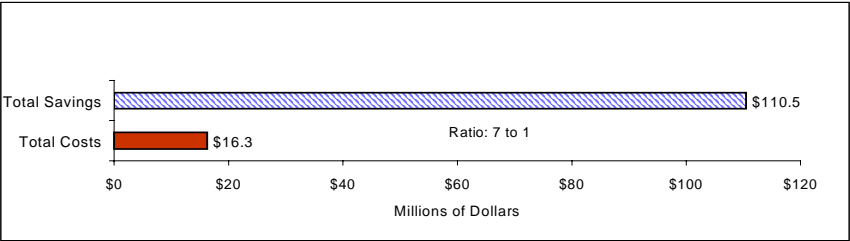
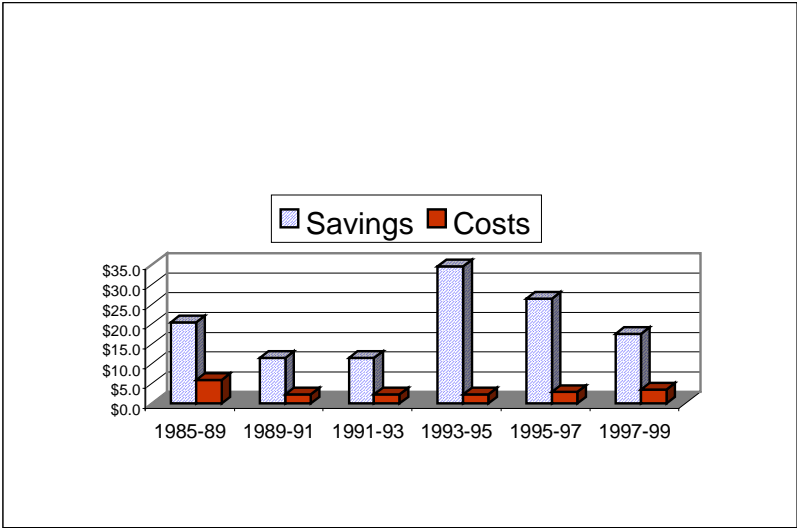


Exhibit 4 compares the cost savings or revenue enhancements against the audit costs for each reporting period from 1985-89 to 1997-99.

Exhibit 4 Audit Savings Vs. Costs For The Period May 1985 Through June 1991 And For 1985-89, 1989-91, 1991-93, 1993-95, And 1997-99 (In Millions)



**Audit
Recommendations**

In addition to identifying cost savings and increased revenues, the Auditor’s Office has also made audit recommendations that benefited the City in the following ways:

- **Improved Economy or Efficiency.** Audit recommendations identified ways to (a) maximize revenues or identify opportunities for new revenues or cost savings; (b) manage or utilize its resources, including public funds, personnel property, equipment and space in an economical and efficient manner; and (c) identify causes or inefficiencies or uneconomical practices, including inadequacies in management

information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel, purchasing policies, and equipment.

- ***Improved Operations or Program Effectiveness.*** Audits have also helped the auditees (a) safeguard assets; (b) detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisition, use, or disposition of assets; (c) promote accountability; (d) ensure compliance with laws, regulations, policies, procedures, or generally accepted industry standards; (e) check the accuracy and reliability of its accounting data; (f) achieve the desired program results; and (g) meet the objectives established by the City Council or other authorizing body.
- ***Provided Objective Information.*** Audit reports and special studies have also provided reliable, objective, and timely information to decision-makers and the public. This information has assisted the City Council and City Administration in making needed policy and administrative changes and has informed the public about the management of City government.

Office Operations

Section 805 of the City Charter establishes the Office of the City Auditor and provides for the manner in which the City Council appoints the City Auditor. Specifically, Section 805 states in part:

The office of City Auditor is hereby established. The City Auditor shall be appointed by the Council. Each such appointment shall be made as soon as such can reasonably be done after the expiration of the latest incumbent's term of office. Each such appointment shall be for a term ending four (4) years from and after the date of expiration of the immediately preceding term; provided, that if a vacancy should occur in such office before the expiration of the former incumbent's terms, the Council shall appoint a successor to serve only for the remainder of said former incumbent's term.

The office of City Auditor shall become vacant upon the happening before the expiration of his term of any of the events set forth in subsections (a), (b), (c), (d), (e), (h), (i), (j), (k) and (l) of Section 409 of this Charter. The Council, by resolution adopted by not less than ten (10) of its members may remove an incumbent from the office of City Auditor, before the expiration of his or her term, for misconduct, inefficiency, incompetence, inability or failure to perform the duties of such office or negligence in the performance of such duties, provided it first states in writing the reasons for such removal and gives the incumbent an opportunity to be heard before the Council in his or her own defense; otherwise, the Council may not remove an incumbent from such office before the expiration of his or her term.

The City Council's Finance and Rules Committees directly oversee the work of the City Auditor. The Finance Committee reviews and approves the City Auditor's annual audit workplan, subsequently reviews and approves audit report findings and recommendations, submits audit reports and approved recommendations to the full City Council for concurrence, and monitors the implementation of approved recommendations. The Rules Committee is responsible for approving City

Councilmember or City Administration requests for audit services as they arise during the year.

Budget Since 1985-86, the budget of the Auditor’s Office has averaged about \$1.27 million per year, with approximately 94 percent spent for salaries and benefits. City Auditor staffing has averaged 17 authorized full-time positions, including both audit and administrative staffs. In addition, the Office provides employment and training to eight part-time student interns. Exhibit 5 shows the City Auditor’s adopted budget and staffing level from 1985-86 to 1998-99.

Exhibit 5 Office Of The City Auditor – Adopted Budget And Staffing Level From 1985-86 To 1998-99

Year	Positions	Personal	Non-Personal	Equip-ment	Total Budget
1985-86	19	\$944,919	\$92,410	\$21,647	\$1,058,976
1986-87	19	948,853	94,700	32,266	1,075,819
1987-88	19	974,660	56,475	0	1,031,135
1988-89	18	979,231	49,475	0	1,028,706
1989-90	18	1,106,756	40,025	9,100	1,155,881
1990-91	18	1,122,442	50,265	17,500	1,190,207
1991-92	17	1,158,311	50,265	40,000	1,248,576
1992-93	16	1,207,635	50,265	0	1,257,900
1993-94	15	1,097,977	31,064	0	1,129,041
1994-95	15.5	1,175,813	31,064	0	1,206,877
1995-96	16.5	1,344,464	38,836	0	1,383,300
1996-97	17	1,443,006	71,836	0	1,514,842
1997-98	17	1,508,765	160,836	0	1,669,601
1998-99	18	1,744,023	100,836	0	1,844,859

Audit Strategy When the City Auditor assumed office in May 1985, he took immediate action to improve the efficiency and effectiveness of the Office's limited resources. He proposed to conduct the City Charter-required fiscal audits more efficiently and to secure additional staff to conduct expanded-scope performance audits.

Initially, the City Auditor reduced the staff time devoted almost exclusively to Charter-required reviews of payroll expenses, nonpersonal services expenses, petty cash and revenue accounts, and parking revenues.

In 1987, the Auditor’s Office changed its auditing strategy to reflect new American Institute of Certified Public Accountants (AICPA) pronouncements. In pursuing this audit strategy, the Office implemented a rigorous risk assessment approach to

identify any threats (unwanted events) facing the program or activity under audit and to assess those controls or procedures in place to prevent, eliminate, or minimize the threats identified. The Office's risk assessment approach to auditing is widely recognized as an industry standard, and many governmental auditing units have borrowed from and replicated the Office's auditing procedures.

Annual Citywide Risk Assessment

Determining which areas to audit and allocating scarce audit resources to those areas is key to a successful internal audit function. To assess the relative importance of potential audit subjects, the City Auditor's Office prepares an annual risk assessment model of the City's budgeted programs and revenue sources. For each of the City's budgeted programs and revenue sources, the Office compares the following factors: proposed expenditures, three-year expenditure trend, fund type, capital expenditures, estimated revenues, three-year revenue trend, number of staff, estimated beginning fund balance, fixed assets, audit requests, and date of last audit.

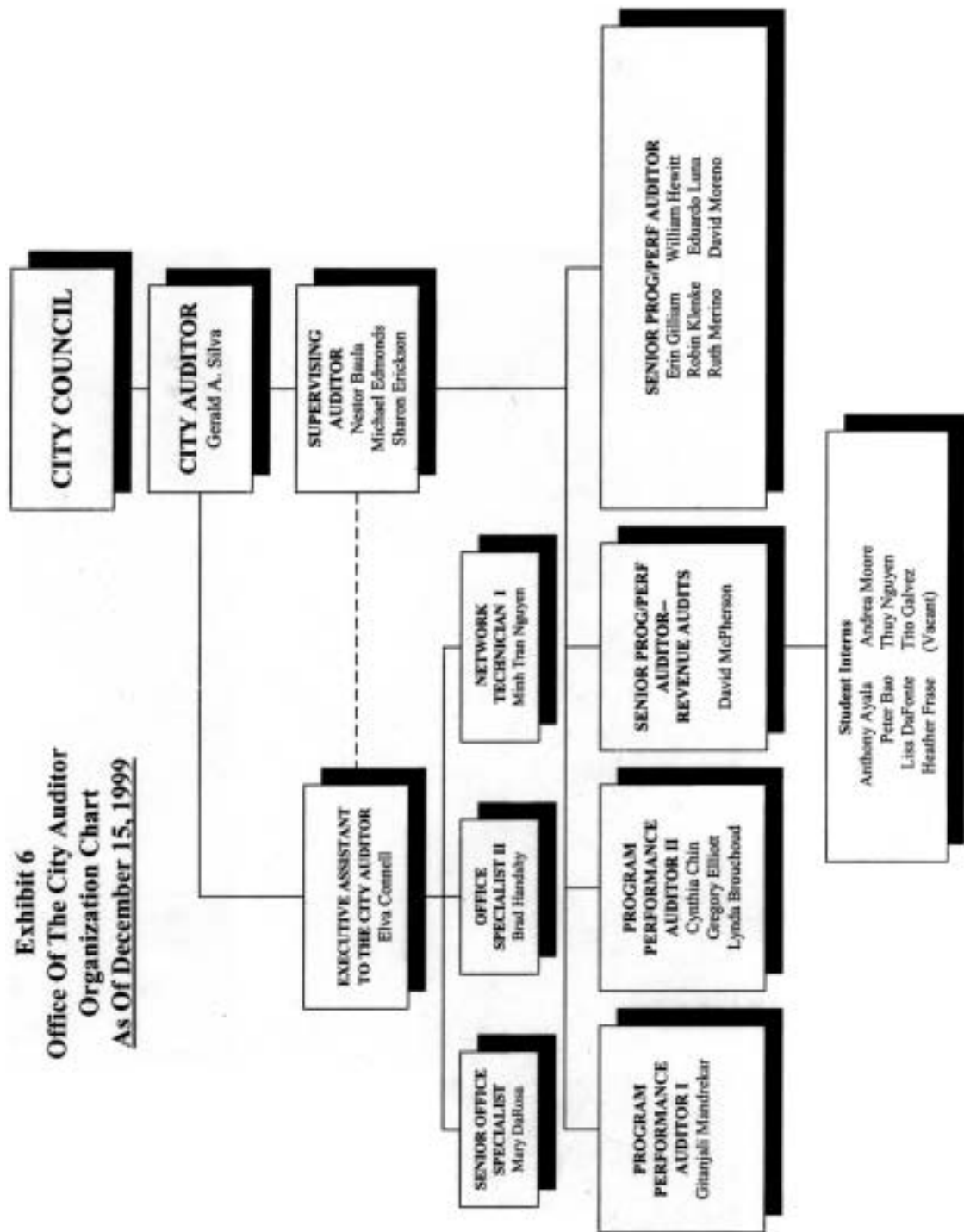
For each specific budgeted program or revenue source, the City Auditor scores each of the above factors from 0 through 10 based on a series of tables the City Auditor designed. In addition, the City Auditor rates each of the above factors from 1 to 5 according to their relative importance to produce a weighted score for each budgeted program or revenue source. The City Auditor then sorts these weighted scores from highest to lowest and recommends that the City Council Finance & Technology Committee include in the City Auditor's Annual Audit Workplan those budgeted programs or revenue sources with the highest weighted scores. Because the City Auditor applies this scoring system evenly across the entire citywide organization it promotes a sense of fairness to auditees and helps ensure that City Auditor resources will be focused on those areas with the highest audit potential.

Office Staffing

The Auditor's Office operates with 19¹ authorized positions consisting of the City Auditor, three supervising auditors, eleven auditors, and four administrative staff. The Office also trains and employs eight student interns. Exhibit 6 shows the organizational chart for the Auditor's Office as of October 4, 1999.

¹ The City Council authorized an additional audit position beginning July 1, 1999.

Exhibit 6
Office Of The City Auditor
Organization Chart
As Of December 15, 1999



Staff Background And Experience

The staff of the City Auditor's Office have diverse educational backgrounds and work experience (See Exhibit 7). Staff educational backgrounds include accounting, economics, political science, business administration, education, finance, public administration, and linguistics. Further, several staff members have advanced academic degrees and/or professional certifications such as Certified Public Accountant, Certified Government Financial Manager, Certified Internal Auditor, Certified Fraud Examiner, Certified Information Systems Auditor, Certified Revenue Officer, and Certified Quality Auditor. Staff members have had previous experience in public accounting, banking, data processing, education, and health care, as well as federal, state, and local government. This wide range of training and experience brings a broad perspective to the variety of audit work the Office conducts.

Members of the staff have been officers or members in the following professional organizations: Institute of Internal Auditors, National Association of Local Government Auditors, National Intergovernmental Audit Forum, Western Intergovernmental Audit Forum, Association of Government Accountants, American Institute of Certified Public Accountants, California Society of Certified Public Accountants, California Municipal Business Tax Association, American Society for Public Administration, Association of Fraud Examiners, Information Systems Audit and Control Association, Women in Government Service, and San Jose Management Association.

The City Auditor is the Past Chairman of the Association of Government Accountants' State and Local Government Committee, a former member of the Board of Governors of the San Jose Chapter of the Institute of Internal Auditors, Past President of the National Association of Local Government Auditors, former Chairman of the Western Intergovernmental Audit Forum, former Local Government representative to the prestigious National Intergovernmental Audit Forum Executive Committee, and a former member of the American Institute of Certified Public Accountants' Members in Government Committee.

EXHIBIT 7

OFFICE OF THE CITY AUDITOR
STAFF EDUCATION AND BACKGROUND

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Gerald A. Silva, CPA, CGFM	City Auditor	Bachelor of Science Accounting, 1967	Former member of the Board of Governors, IIA, San Jose Chapter; Past President, NALGA; Former Chairman, Western Intergovernmental Audit Forum; Former Local Government Representative, National Intergovernmental Audit Forum Executive Committee Member; Former AICPA Members In Government Committee; GFOA; Who's Who in Government; California & Arizona State Boards of Accountancy; Past Chairman of the Association of Government Accountants' State and Local Government Committee for 1997-98	State Budget Director, State of Arizona Director of Program Auditing, State of Arizona Audit Manager, California Auditor General's Office Public Accounting
Nestor S. Baula, CPA, CIA	Supervising Auditor	Bachelor of Science Accounting, 1971	Member, IIA; Member, Association of Certified Fraud Examiners; California Society of CPAs	Senior Auditor, Castle & Cooke, Inc.
Michael Edmonds, CIA	Supervising Auditor	Bachelor of Arts Political Science, 1974	Member, IIA; Member, NALGA	Internal Auditor, Contra Costa Water District; Staff Auditor, California Office of the Auditor General
Sharon W. Erickson, CIA, CGFM	Supervising Auditor	Bachelor of Arts Political Science	Member, IIA, San Jose Chapter; Member, NALGA	Controller, Smith, Erickson, McDonald, Inc.
Ruth Garcia Meriso, CISA, CGFM	Senior Program Performance Auditor	Bachelor of Science Business Administration, Finance and Accounting, 1978	Member, IIA, San Jose Chapter; Member, Information Systems Audit and Control Association	Business Banking Officer, Bank of America
Robin A. Klenke, MBA, CGFM	Senior Program Performance Auditor	Bachelor of Arts Anthropology/Linguistics, 1982 MBA, 1986	President, ASPA, Santa Clara Valley Chapter; Member, IIA, San Jose Chapter; Member, NALGA	Manager/Chief Technician, El Camino Hospital

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
William P. Hewitt, CIA, CISA, CFE, CQA, CGFM, CMA	Senior Program Performance Auditor	Bachelor of Arts Political Science, 1965	Member, IIA; Member, Association of Certified Fraud Examiners	Internal Audit Manager, Kelly-Moore Paint Co.
Eduardo Luna, MPA, CGFM	Senior Program Performance Auditor	Bachelor of Science Political Science, 1987 MPA, 1989	Member, IIA, San Jose Chapter; Member, NALGA; Member, Association of Government Accountants	Evaluator, U.S. General Accounting Office; Urban Consortium Manager, Public Technology, Inc.
David McPherson, MPA, CRO	Senior Program Performance Auditor	Bachelor of Arts History, 1986 MPA, 1993	President, CMBTA Div III; 3 rd VP, CMBTA State Board; Member, IIA, San Jose Chapter; Member, NALGA; Member, CROA	Revenue Technician, City of Newport Beach
David Moreno, MPA	Senior Program Performance Auditor	Bachelor of Arts Political Science, 1979 MPA, 1985	Member, NALGA	High School Teacher, Fresno, CA; Senior Evaluator, U.S. General Accounting Office
Erin T. Gilliam, CPA	Senior Program Performance Auditor	Bachelor of Science Accounting		Senior Manager, KPMG Peat Marwick LLP
Gregory W. Elliott, MA	Program Performance Auditor II	Associate in Arts, 1987 Bachelor of Science, 1989 MA, Economics, 1992	Member, IIA, San Jose Chapter	Audit Intern, San Jose City Auditor's Office
Cynthia Chin, CPA	Program Performance Auditor II	Bachelor of Science Accounting, 1991	Member, IIA, San Jose Chapter; Member, NALGA	Supervising Senior Accountant, KPMG Peat Marwick LLP
Lynda Flores Brouchoad, MPA (fired after June 30, 1999)	Program Performance Auditor II	Bachelor of Science Business Administration, 1996 MPA, 1998		Management Intern, San Jose City Manager's Office
Gitanjali Mandrekar, MA (fired after June 30, 1999)	Program Performance Auditor I	Bachelor of Arts Economics, 1995 MA, Economics, 1998		Audit Intern, San Jose City Auditor's Office
Elva Council	Executive Assistant to the City Auditor	Associate in Arts Social Sciences, 1983 Notary Public		Office Manager, Nolte and Associates

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Minh Tran Nguyen, MCP	Network Technician	Associate in Arts Office Administration & Word Processing, 1985 Certificate, Netware 4 Admin, 1996 Admin MS Windows NT, 1997; Microsoft Certified Professional (MCP), 1999		Secretary, IBM Corporation
Mary Da Rosa	Senior Office Specialist	Word Processing 1986 Clerical Support 1989		Title Examiner, American Title Insurance Company
Brad Handsby	Office Specialist II	Administrative Assistant Certificate, 1991		Desktop Publishing Assistant, VLSI Research; English Writing Sample Evaluator, East Side Union High School District.

ACRONYMS

AICPA	American Institute of Certified Public Accountants	CQA	Certified Quality Auditor
ASPA	American Society for Public Administration	CRO	Certified Revenue Office
CFE	Certified Fraud Examiner	CROA	California Revenue Officers Association
CGFM	Certified Government Financial Manager	GFOA	Government Finance Officers Association
CIA	Certified Internal Auditor	IIA	Institute of Internal Auditors
CISA	Certified Information Systems Auditor	MA	Master of Arts
CMA	Certified Management Accountant	MBA	Master in Business Administration
CMBTA	California Municipal Business Tax Association	MPA	Master in Public Administration
CPA	Certified Public Accountant	NALGA	National Association of Local Government Auditors

**Office Of The City
Auditor
Performance Audit**

The City Charter requires the Auditor's Office to undergo a peer review performance audit on a biennial basis. Specifically, Section 805.2 of the City Charter states:

The Council shall contract with an independent audit firm, which has no other contracts with the City, to conduct a performance audit of the City Auditor's office at least every two years. The report of the performance audit shall be available to the public.

The Office has undergone seven audits since the performance audit requirement was instituted. In June 1987, the Office underwent its first such performance audit. A management representative from the California Auditor General's Office performed the review according to National State Auditors Association (NSAA) standards. This initial audit focused on the Office's formal written audit and office administration procedures and controls. The purpose of the audit was to determine if the procedures and controls provided reasonable assurance that City Auditor audits would meet the specified standards. Following the audit, the Auditor General issued two letters. One letter expressed an overall unqualified (clean) opinion on the City Auditor's system of quality control. The other letter identified opportunities to improve the Office's system of quality control, all of which have been implemented.

Independent auditors conducted the Office's subsequent performance audits in 1989, 1991, 1993, 1995, 1997, and 1999. The objective of these audits was to determine the Office's compliance with generally accepted government auditing standards, based on the peer review guidelines issued separately by the National State Auditor's Association (NSAA) and the National Association of Local Government Auditors (NALGA). The independent auditors' 1989, 1991, 1993, 1995, 1997 and 1999 reports stated that the Office of the City Auditor was in compliance with Government Auditing Standards. Appendix C shows the independent auditor's 1999 report.

Summary Of Work Performed July 1997 Through June 1999

From July 1997 through June 1999, the Auditor’s Office completed 25 performance/ financial audit reports and special studies and 6 recommendations follow-up reports. The audit reports contained 117 recommendations to improve the economy, efficiency, and effectiveness within City government. Since the City Auditor started in May 1985, the Office has made 1,019 such recommendations. To date, the City Administration and the Redevelopment Agency have fully implemented or resolved over 92 percent of these recommendations. Exhibits 8 and 9 show the status of implementation and the types of recommendations made from May 1985 through June 1999. Exhibit 10 (page 25) summarizes the activity costs and results for the period of July 1997 through June 1999.

Exhibit 8 Types Of Recommendations – May 1985 Through June 1999

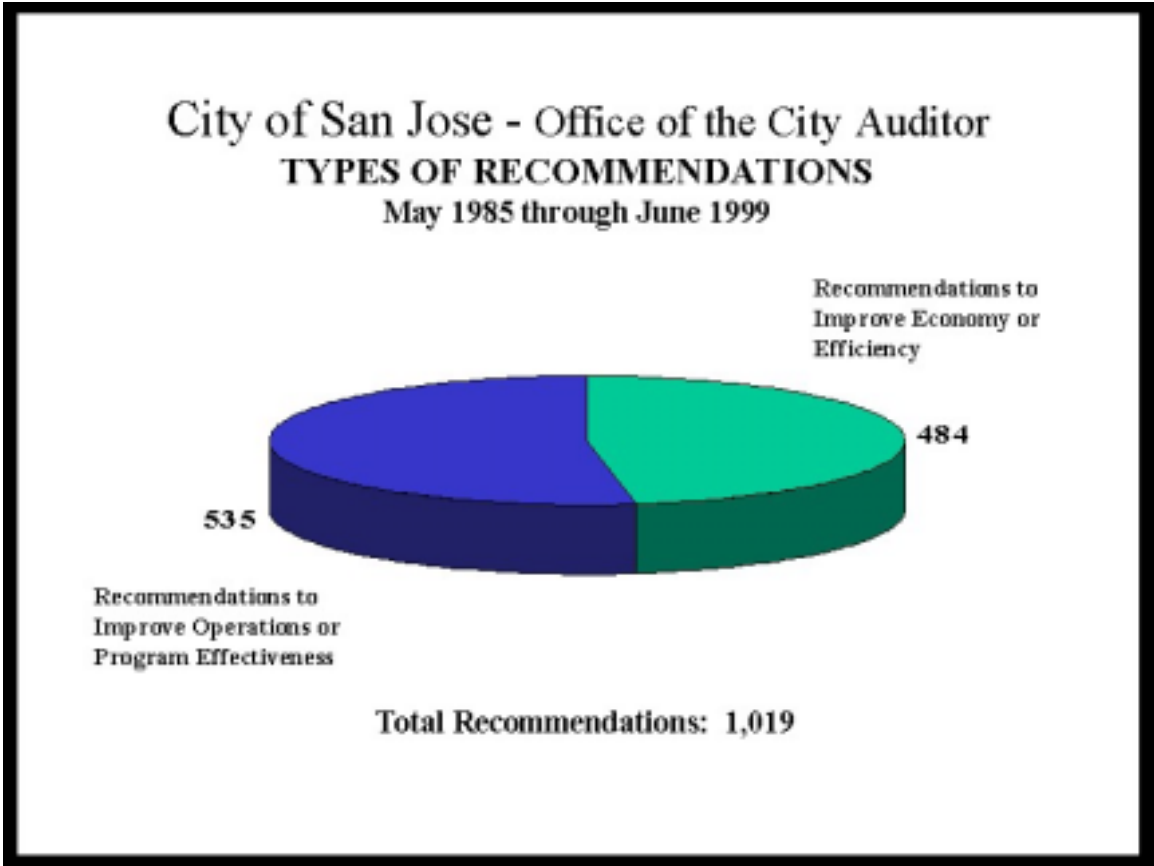
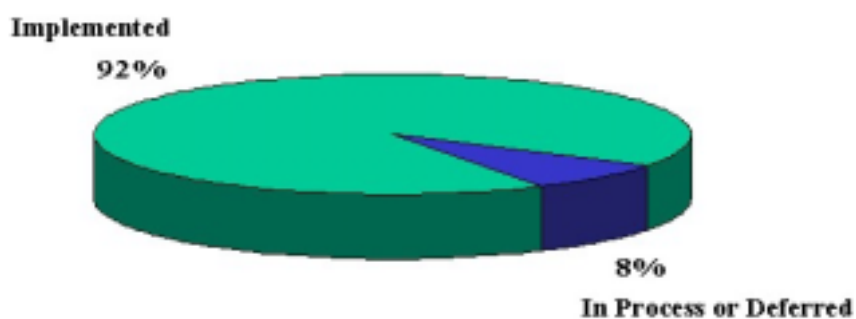


Exhibit 9 Status of Recommendations As Of June 1999

**City of San Jose - Office of the City Auditor
RECOMMENDATIONS IMPLEMENTED
May 1985 through June 1999**



Total Recommendations: 1,019

Exhibit 10
Summary Of Activity Costs And Results
For The Period July 1997 Through June 1999

Report Number	Date	Title or Description	City Auditor Costs	Identified Opportunities to Increase Revenues or Reduce Costs	Recommendations to Improve Economy or Efficiency	Recommendations to Improve Operations or Program Effectiveness
97-04	Sep-97	A Review of the City of San Jose's Landfill Fees and Taxes	\$12,974	\$171,000	4	5
97-05	Oct-97	An Audit of the Department of Public Works Engineering and Inspection Costs	\$154,745		2	8
97-06	Oct-97	An Audit of the City of San Jose's Integrated Waste Management Services	\$128,861		2	10
97-08	Dec-97	Analysis of the Number of Public Safety Dispatcher Positions Required to Adequately Staff the Two New Police Radio Channels	\$99,473		1	2
98-01	Mar-98	The City Auditor's Analysis of the Environmental Services Department's February 19, 1998 Memorandum on the Evaluation of a Lease of the San Jose Municipal Water System	\$9,886		2	
98-02	Jun-98	Audit of the Department of Parks, Recreation and Neighborhood Services' Petty Cash and Change Funds	\$64,885			14
98-03	Jun-98	Audit of the City of San Jose's Towing Service Agreements	\$187,125	\$63,000	7	15
98-04	Aug-98	An Audit of the Multiple Housing Roster Maintained by the Code Enforcement Division of the Department of Planning, Building, and Code Enforcement	\$98,032	\$263,000	9	2

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98-05	Oct-98	An Audit of the City of San Jose Sewer Billing Services	\$116,862	\$72,000	11	6
98-06	Dec-98	Financial Audit of the Santa Clara County Cities Association	\$11,182			1
99-01	Jan-99	An Audit of the City of San Jose Police Department Petty Cash, Confidential, and Flash Funds	\$50,249	\$210,000	2	6
99-02	Mar-99	An Audit of the Multiple Housing Program	\$63,476		3	4
OTHER ASSIGNMENTS AND ADMINISTRATIVE ITEMS						
	Aug-99	Review of July 1997 Property Tax Remittances	\$80,701	\$6,970,000		
	Feb-99	Compilation of Financial Statements for the Ice Centre and Griffin Sports	\$6,273			
	Mar-98	Review of the ERAF Property Tax Oversight	\$28,977	\$816,000		
	Nov-98	Letter regarding Property Tax-based payments made by the Santa Clara County Central Fire Protection District	\$19,136	\$536,000	1	
	Nov-98	Request for Proposal for the audit of the Municipal Health Services Program	\$4,432			

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	Prior Period Audit	Franchise Fees Audit Follow up - Litigation recoveries	\$3,068	\$2,409,000		
	Prior Period Audit	Health Plan Audit Follow up - Litigation recoveries	\$1,909	\$340,000		
	Quarterly	Sales and Business Tax Audit	\$285,375	\$4,222,000		
	Special Project	Revised Allocation of Sales Tax on Jet Fuel Transactions	\$4,568	\$1,500,000		
	Special Project	Business Tax Amnesty Project	\$23,417			
	On-going Project	Outside Audit Coordination and Review -- Annual Audit	\$7,500			
	On-going Project	Outside Audit Coordination and Review -- Bay 101 Audit	\$7,432			
	Annual	City-wide Risk Assessment	\$9,181			
		Recommendations Follow-up	\$222,604			

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Report Number	Date	Title or Description	City Auditor Costs	Identified Opportunities to Increase Revenues or Reduce Costs	Recommendations to Improve Economy or Efficiency	Recommendations to Improve Operations or Program Effectiveness
		Internal Audit Quality Control	\$368,516			
		Training	\$87,867			
		Departmental Administration	\$320,775			
		Vacation, Holiday and Other Leaves	\$587,172			
		Prior Period Costs Carryover	(\$506,320)			
		Assignments in Progress	\$908,710			
		TOTALS	\$3,469,043	\$17,572,000	44	73

Summary Of Audit Reports And Special Studies

The following summarizes the audit reports and special studies that the Office of the City Auditor issued from July 1997 through June 1999.

#97-04 A Review of the City of San Jose's Landfill Fees and Taxes (September 1997)

The City Needs To Improve Its Administrative Oversight Over the \$20 Million Per Year That Landfill Operators Pay To The City

There are four solid waste disposal facilities located in San Jose. These solid waste disposal facilities paid the City of San Jose (City) \$20 million in 1995-96 in taxes and fees. Our review of the City's administrative oversight revealed the following:

- From 1991-92 through 1995-96, the Administration did not investigate or audit \$35.9 million in foregone General Fund revenues resulting from landfill operators self-reported material diversion at solid waste disposal facilities;
- The City only reviews landfill operator remittances for mathematical correctness;
- LEA reviews are restricted to nonfinancial matters;
- Numerous opportunities exist for landfill operators to underreport taxes and fees due to the City;
- The last City audit of landfill operators in 1990-91 identified an underpayment of \$1.6 million;
- The City is precluded from obtaining the results of California State Board of Equalization (SBE) audits of San Jose landfill operators;
- In 1996, the City did not properly assess up to \$170,856 in late fees and interest against landfill operators; and
- The ESD has not documented its procedures for claiming over \$800,000 per year from the County of Santa Clara (County) in Countywide AB 939 Implementation Fees.

In our opinion, the Administration should improve its documentation for mathematical correctness reviews of solid waste disposal facility taxes and fees, and develop written procedures for claiming Countywide AB 939 Implementation Fees and processing solid waste disposal taxes and fees. In addition, the City Attorney's Office should review Treasury's

practice of assessing penalties and interest on late Solid Waste Enforcement Fee payments and determine if special Municipal Code provisions are required. Further, the Finance Department should develop guidelines and written procedures for processing Disposal Facility Tax and Solid Waste Enforcement Fee payments. Additionally, the ESD should incorporate late payment information on the Disposal Facility Monthly Report form. Finally, either the ESD, the Administration, or the City Auditor's Office should conduct regular audits of landfill operators, and establish a reciprocal agreement with the County and/or the SBE regarding audit activities. By so doing the City will have added assurance that it is receiving all of the solid waste disposal facility taxes and fees to which it is entitled.

RECOMMENDATIONS

We recommend that the Finance Department:

Recommendation #1 Document that it verifies the mathematical correctness of all Disposal Facility Monthly Reports to ensure the Disposal Facility Tax and Solid Waste Enforcement Fees are correctly calculated. (Priority 2)

In addition, we recommend that the ESD and the Finance Department:

Recommendation #2 Eliminate duplicative mathematical steps when processing Disposal Facility Tax and Solid Waste Enforcement Fee payments. We also recommend that the ESD and the Finance Department revise the Finance Administrative Manual to include updated procedures for processing the Disposal Facility Tax and Solid Waste Enforcement Fee. (Priority 2)

Also, we recommend that either the ESD, the Administration, or the City Auditor's Office:

Recommendation #3 Regularly audit local landfill operators to ensure proper landfill tax receipts and appropriate reporting of tonnages. (Priority 2)

Recommendation #4 Approach the County of Santa Clara Integrated Waste Management Program about the possibility of sharing audit costs for reviewing landfill disposal taxes and fees. (Priority 2)

- Recommendation #5** **Approach the State Board of Equalization about the possibility of developing a reciprocal agreement to share landfill audit results. (Priority 2)**
- Further, we recommend that the City Attorney's Office:
- Recommendation #6** **Review Treasury's practice of assessing penalties and interest on late Solid Waste Enforcement Fee payments and determine if special Municipal Code provisions are required. (Priority 2)**
- Also, we recommend that the Finance Department:
- Recommendation #7** **Develop guidelines and written procedures that assign responsibilities for processing Disposal Facility Tax and Solid Waste Enforcement Fee payments, and include the process for determining timeliness and assessing appropriate penalties and interest. (Priority 2)**
- Finally, we recommend that the ESD:
- Recommendation #8** **Include the payment due date and an explanation of late payment penalties on the Disposal Facility Monthly Report form and consult with landfill operators prior to making any changes to the form. (Priority 3)**
- Recommendation #9** **Document its procedures for preparing Countywide AB 939 claims. (Priority 3)**

#97-05 An Audit of the Department of Public Works Engineering and Inspection Costs (October 1997)

The City Should Modify How It Budgets And Accounts For DPW Costs Charged To Capital Projects

The City Council, through the annual budget process, appropriates capital funds to individual projects. The appropriation pays for all project costs including construction, land, DPW staff costs, and associated overhead costs. The City then accounts for these costs by capital project. The primary purpose of appropriating and accounting for capital funds in this manner is accountability and budgetary control. Our review, however, found that the Capital Project accounting and budgeting process does not provide the purported level of accountability and budgetary control. Specifically, we found the following:

- The DPW staff time charged to individual capital projects does not accurately reflect the amount of DPW staff time actually spent;
- The DPW adjusts capital project accounting records to avoid exceeding capital project budgets;
- The DPW uses funds from other appropriations to pay for capital projects which have exceeded their budget; and
- The DPW charges unbudgeted operating expenses to capital projects.

In our opinion, a different budgeting method could improve accountability and budgetary control of capital projects and reduce the amount of time the DPW spends on non-value added activities. Specifically, if a budget technique termed "budget-off-the-top" was used to fund DPW's costs charged to capital projects, the following benefits should be realized:

- A clearer picture of how the City's capital funds are used would be provided;
- Cost reporting would be more accurate;
- DPW's costs and the cost of construction would be segregated; and
- More flexibility for DPW staff to complete projects would be provided.

*The Department Of
Public Works Needs
To Improve Its
Procedures For
Controlling
Engineering And
Inspection Costs*

The DPW provides architectural and engineering services to support the City's Capital Improvement Program. The DPW's operating budget is approximately \$25 million, of which approximately \$18 million (70 percent) is capitolly funded. These costs should be adequately controlled to ensure that the City makes the most effective use of its capital monies and that DPW staff is used efficiently and effectively. Although the DPW has established a number of capital project management controls, our review identified a number of internal control weaknesses which limit the DPW's ability to plan, monitor, and control its E&I costs. Specifically, we found that (1) the Project Management Procedures Manual does not adequately address procedures for controlling E&I costs charged to projects; (2) the DPW's estimates for E&I costs are not sufficiently detailed; (3) the DPW's cost reporting needs to be improved; and (4) the DPW's project cost monitoring is reactive instead of proactive.

*The City Council
Does Not Receive
Sufficient
Information
Regarding Capital
Project Costs*

The City Council has oversight responsibility for the City's capital program. This responsibility includes: authorizing projects; reviewing and approving budgets; monitoring the capital program to ensure that projects are completed in accordance with approved plans and budgets; and accepting the completed project. To be effective, the City Council needs reliable and complete information on the status and cost of projects. Accordingly, the City has developed policies and procedures to inform the City Council on the status and cost of projects. Likewise, the DPW's internal directives contain policies and procedures that require reports to the City Council on the status and cost of capital projects. In order to comply with City and DPW policies and procedures, the City Council should receive these reports:

- Capital Budget Reports;
- Report on Bids Memorandum;
- Notice of Completion and Acceptance of Public Works Contract; and
- Unfunded projects status report.

Although policies and procedures are in place, our review found that reporting to the City Council should be improved. Specifically, our review found the following:

- The Capital Budget Reports inform the City Council of capital project schedules only, as such, information on DPW staff costs charged to date to capital projects is not available for City Council review;
- The DPW's Report on Bids memoranda to the City Council do not provide an accurate estimate of all DPW staff costs charged to capital projects;
- The City Council never receives a complete accounting of total capital project costs at the time the capital project is accepted;
- The DPW has not used the Unfunded Projects appropriation as the Finance Committee intended; and
- The DPW does not report on a quarterly basis to the City Council the status of unfunded capital projects.

As a result of these practices, the information the City Council does receive on the status and cost of capital projects is neither

reliable nor accurate and impedes the City Council's ability to effectively oversee the City's Capital Improvement Program.

RECOMMENDATIONS

We recommend the Department of Public Works should:

Recommendation #1 **Define appropriate charges/uses of capital funds and establish procedures to ensure that charges are appropriate. (Priority 3)**

Recommendation #2 **In conjunction with the Budget Office, develop and propose to the City Council an alternate method, such as the “budget-off-the-top” approach, to budget and account for DPW costs charged to capital projects. (Priority 3)**

In addition, the Department of Public Works should:

Recommendation #3 **Develop and implement project management procedures for planning, monitoring, and controlling its staff costs and overhead costs charged to capital projects. These procedures should include some or all of the following:**

- Checklists for planning the project;
 - a list of steps to be completed;
 - a realistic estimate of the staff costs needed to complete the project;
 - budget hours and costs by project phase;
 - project schedules;
 - project cost reports;
 - monitoring progress and costs against the schedule and budget;
 - exception reports; and
 - revisions to project schedules and budgets.
- (Priority 3)**

Recommendation #4 **Continue working to develop a cost reporting system that can be used to integrate project schedules and costs for the purposes of comparing project plans and budgets versus actual performance. (Priority 3)**

Furthermore, the Department of Public Works should:

Recommendation #5 **Provide the Budget Office with project-specific cost information, including the cost of DPW staff, for inclusion**

**in the Mid-Year and Year-End Capital Budget Reports.
(Priority 3)**

- Recommendation #6** **Include all prior and future estimated capital project costs on the Report on Bids Memorandum to the City Council. (Priority 3)**
- Recommendation #7** **Prepare a final accounting of the total cost of each capital project at project acceptance and report final capital project costs to the City Council. (Priority 3)**
- Recommendation #8** **Establish adequate controls to monitor the cost for DPW staff to work on unfunded projects and charge time to the Unfunded Projects appropriation on a real-time basis. (Priority 3)**
- Recommendation #9** **Clearly define the types of unfunded projects eligible for funding from the Unfunded Projects appropriation and modify its Unfunded Project Log to show the timing and amount of any cost reimbursements. (Priority 3)**
- Recommendation #10** **Prepare and present a quarterly report to the Finance Committee on the status of unfunded capital projects and undistributed costs of DPW staff working on capital projects. (Priority 3)**

#97-06 An Audit of the City of San Jose's Integrated Waste Management Services (October 1997)

*The City Should
Improve Its
Oversight Of
Commercial Solid
Waste Franchise
And AB 939 Fees*

Commercial Solid Waste (CSW) haulers remit to the City of San Jose (City) about \$16 million per year in franchise and AB 939 fees. CSW haulers remit these fees on a self-reporting basis. Our review revealed that although the ESD Audit Unit is working to bring audits current, of the \$18.8 million in remittances that the City received in 1994-95, the ESD has only audited \$105,000 or 0.6 percent. In addition, our review revealed that

- Treasury does not always document the timeliness of remittances;
- Reporting requirements for inactive CSW haulers are burdensome;

- CSW hauler contracts do not always comply with the Municipal Code; and
- The ESD has not reviewed hauler contracts with customers for compliance with the Municipal Code.

The City imposes a three year record keeping requirement on CSW haulers. Therefore, the ESD should audit CSW hauler remittances for 1994-95 before the three year record keeping requirement expires. Further, the Finance Department should retain the postmarked envelope as proof of late payment, note the postmark date on the face of the Commercial Solid Waste Collector's Monthly Report, and maintain complete files. In addition, the ESD should streamline the voluntary suspension and reinstatement process, and encourage inactive haulers to use that process. Moreover, the City Attorney should evaluate the feasibility of revising Municipal Code Section 9.10.1630, to provide for the automatic termination of a CSW contract if the CSW hauler's franchise is not renewed. Finally, the ESD should regularly audit CSW franchisee contracts with commercial solid waste generators to ensure compliance with Municipal Code requirements. By so doing, the City will have added assurance that it is receiving all of the CSW franchise and AB 939 fees to which it is entitled, improve the administration of CSW hauler activity oversight, and improve CSW hauler compliance with the Municipal Code.

RECOMMENDATIONS

We recommend that the ESD:

Recommendation #1 Audit CSW franchisees to ensure that 1994-95 franchise and AB 939 fees were properly remitted. (Priority 2)

In addition, we recommend that the Finance Department:

Recommendation #2 Retain the postmarked envelope as proof of late payment, note the postmarked date on the face of the Commercial Solid Waste Collector's Monthly Report, and maintain copies of the Commercial Solid Waste Collector's Monthly Reports. (Priority 2)

In addition, we recommend that the ESD:

Recommendation #3 Streamline the voluntary suspension and reinstatement process for CSW haulers, and encourage inactive haulers to use that process. (Priority 3)

Furthermore, we recommend that the City Attorney's Office:

Recommendation #4 Evaluate the feasibility of revising Municipal Code Section 9.10.1630 to provide for the automatic termination of CSW hauler-customer contracts if the CSW hauler's franchise is not renewed. (Priority 3)

Finally, we recommend that the ESD:

Recommendation #5 Regularly audit CSW franchisee contracts with commercial solid waste customers to ensure compliance with Municipal Code requirements. (Priority 3)

*The City's
Regulation Of
Commercial Solid
Waste And
Recyclable Haulers
Can Be Improved*

The City of San Jose (City) issues franchises to commercial solid waste (CSW) and commercial mixed recyclable haulers on a non-exclusive basis. Our review revealed that the City's regulation of commercial recyclable haulers is overly burdensome, bureaucratic, and non-value added. Specifically, franchise and reporting requirements for CSW and mixed recyclable haulers are duplicative and the ESD's oversight of recyclable haulers overlaps with the regulatory concerns of other agencies. In addition, the current system excludes both recyclable residue and self-hauled non-franchised solid waste from franchise and AB 939 fees. Furthermore, the City's mixed recyclable and CSW tonnage and fee remittance reports are confusing. Our review also revealed that insurance certificates were missing or out of date for 3 of 13 CSW franchises and 2 of 12 mixed recyclable franchises. Finally, we noted that the City did not properly assess \$2,100 in late fees on hauler activity reports. In our opinion, the City should (1) eliminate duplicative franchise and reporting requirements for CSW and mixed recyclable haulers, (2) review its current policy of excluding both self-haulers and recycling residue from franchise and AB 939 fees that other haulers and generators must pay, (3) clarify and simplify CSW and recyclable hauler reporting requirements, and (4) update its written procedures regarding insurance requirements and late or not filed recyclable franchise activity reports. By so doing, the City will eliminate unnecessary bureaucratic regulations and improve its regulation of CSW and recyclable haulers.

RECOMMENDATIONS

We recommend that the City Council:

- Recommendation #6

Eliminate duplicative franchise and reporting requirements for CSW and mixed recyclable haulers. (Priority 3)
- Recommendation #7

Review the current policy of excluding from CSW franchise and AB 939 fees: (1) commercial recyclable hauler and/or processor generated residue, and (2) CSW self-haulers. (Priority 2)

In addition, we recommend that the ESD:

- Recommendation #8

Clarify and simplify CSW and recyclable hauler report forms, and update written procedures for handling those reports. (Priority 3)

Municipal Code Provisions Regarding Unfranchised Haulers Should Be Aggressively Enforced And Scavenging Complaints Should Be Actively Addressed

Our review revealed that Municipal Code provisions regarding unfranchised haulers have not been aggressively enforced. It appears that this lack of enforcement has been due to a previous lack of effective enforcement authority, and a lack of coordination between the Code Enforcement Division (Code Enforcement) of the Planning, Building and Code Enforcement Department, the Integrated Waste Management Division (IWM) of the ESD, and the City’s franchised commercial solid waste (CSW) haulers. As a result, unfranchised CSW haulers may evade CSW franchise and AB 939 fees. Our review also revealed that the City did not pursue two-thirds of the complaints it received about scavenging because the complaining party did not provide sufficient information about the scavenger. Further, Code Enforcement has not coordinated their response to complaints about scavenging activities with the San Jose Police Department (SJPd). In our opinion, the Administration should improve coordination between Code Enforcement, IWM, and the SJPd, and determine the most effective way to actively pursue unfranchised haulers and respond to complaints about scavengers.

RECOMMENDATIONS

We recommend that the Administration:

- Recommendation #9

Prepare a work program to actively pursue unfranchised haulers. Specifically, the Administration should: (1) clarify

which department is responsible for identifying and making the initial contact with potential unfranchised haulers; (2) enlist the cooperation of franchised CSW haulers to locate unfranchised haulers who are evading the CSW franchise and AB 939 fees that other haulers must pay; (3) set the level of documentation for referral of a potential unfranchised hauler to Code Enforcement; and (4) clarify policies and procedures for citing unfranchised haulers including the level of documentation for issuance of a citation. (Priority 2)

In addition, we recommend that Code Enforcement:

Recommendation #10 (1) Track complaints by location and solicit hauler input as to locations where scavenging occurs, and (2) refer scavenging complaints to Police Dispatch for referral to patrol officers who have authority to issue citations and could, at their discretion, do a 'roll by' of the area when scavengers are most likely to be active. (Priority 2)

The ESD Should Improve Its Oversight Of \$9.8 Million In Recycle Plus Incentive Payments

To encourage recycling, the City allows its Recycle Plus haulers to keep all proceeds resulting from the sales of recyclables that they collect. In addition, the City pays the haulers an incentive payment for each ton of recyclables they recycle. During 1996-97, incentive payments totaled \$9.8 million. The haulers invoice the City on a monthly basis for these incentive payments. Because a portion of the invoiced amount is for unconfirmed tonnages, both the City and the haulers make adjustments to incentive payment amounts in subsequent periods. The City also audits the incentive payment transactions on a periodic basis. In spite of this complicated review, we found discrepancies between total tonnages that USA Waste of San Jose (USA Waste), previously known as Western Waste Industries, confirmed as recycled and their adjusted incentive payment amount. As a result, the City may have overpaid USA Waste \$14,110 for the period from July 1995 through December 1996. Although this difference is less than 0.4 percent of USA Waste's incentive payments during that period, no difference should exist. In our opinion, the incentive payment process can be simplified and streamlined to ensure that both the City and its haulers properly account for Recycle Plus incentive payments.

RECOMMENDATIONS

We recommend that the ESD:

- Recommendation #11 Develop policies and procedures to ensure that the: (1) monthly incentive payment adjustments that the Recycle Plus haulers submit are accurate, complete, and timely; (2) track net incentive payments adjustments and reconcile those payments to the final monthly detail sales activity reports that haulers submit; and (3) periodically review a sample of transactions to assess the accuracy of the detail sales activity reports and reverify that the reports support the net incentive payments to the haulers. (Priority 2)**
- Recommendation #12 Prepare a complete reconciliation of USA Waste recycling incentive payments before making a final adjustment. (Priority 2)**

Estimating The Cost Of A Containerized Yardwaste Collection System At the request of the City Council, we reviewed the ESD’s cost estimates of containerized yardwaste collection. When preparing its 1993 estimate of the cost of containerized yardwaste collection service for the City Council’s Environment Committee, the ESD estimated that containerized service would cost \$18.5 million, or \$8.4 million more per year than on-street service. Our review revealed that the number of service recipients per collection route, assumed residue percentages, and container costs have changed in the interim. As a result, we estimate that current containerized collection costs may be as much as \$5.2 million less than previously estimated. Current yardwaste collection contracts run through the year 2002. As a result, the City cannot revisit the issue of containerized yard waste collection services until that time.

#97-08 Analysis of the Number of Public Safety Dispatcher Positions Required to Adequately Staff the Two New Police Radio Channels (December 1997)

Background During a June 1997 City Council meeting, the City Manager requested that the City Council direct the City Auditor to perform a review of the staffing needs for the two new police radio channels. These channels were scheduled to be operational in September 1998, in conjunction with the San Jose Police Department’s (SJPd) Redistricting Project. Specifically, the City Manager requested that the City Auditor work with the SJPd and the City Manager’s Office to develop a prudent approach to staffing the two new radio channels

without jeopardizing field response times, officer and citizen safety or the SJPd's Redistricting Project. The City Manager also recommended and the City Council approved a 1997-98 General Fund appropriation and authorization for five Public Safety Dispatcher (PSD) IIs to staff one of the two new radio channels. In addition, the City Manager recommended and the City Council approved \$331,000 in the 1997-98 General Fund Budget for five additional PSD IIs and one Senior PSD to staff the second new radio channel. Even though funding was provided for these six additional positions for the second new radio channel, the positions themselves were not authorized pending the results of the City Auditor's study.

The purpose of our audit was to determine the most appropriate number of PSD positions needed to staff the two new police radio channels, taking into consideration workload issues and officer and citizen safety. To conduct our audit, we obtained four weeks of data on radio channel utilization, estimated radio channel utilization under the SJPd's Redistricting plan and analyzed radio channel utilization rates under various PSD staffing options.

*Current And
Projected Radio
Channel Utilization
After Redistricting*

We reviewed current radio channel utilization and projected radio channel utilization after redistricting. In order to estimate the radio channel utilization after redistricting we assumed that the workload would be equally distributed among the available number of radio channels. We also estimated radio channel utilization during simulcasting periods.

We determined various staffing options by reviewing the channel utilization data assuming a 50 percent radio channel utilization standard and allowing for current operational processes and constraints. Such processes and constraints include officer and citizen safety, span of control and Division integrity. Further, we considered less than full staffing for periods of lower radio channel utilization. Due to time constraints, we limited our analysis to the radio channel staffing of the Communications Division.

We developed various staffing options and compared those options with the current radio channel staffing. We then selected three radio channel staffing options for presentation to the Administration and the Finance Committee. For these three options we compared the number of PSDs needed and the associated advantages and disadvantages.

Conclusion

Our review concluded that, at this time, the most prudent option for staffing the two additional police radio channels is Option 2 (10 additional PSD positions plus one Senior PSD). Our analysis also indicates that Option 3 (7 additional PSD positions) may be viable. However, because of the limitations associated with our radio channel utilization projections, we cannot conclusively state that this option would not result in periodic higher than acceptable radio channel utilization rates. These uncertainties arise from our not being able to accurately estimate 1) peak radio channel utilization during the extended simulcasting period from 7 a.m. to 11 a.m. and 2) actual channel utilization after redistricting. An additional review should be conducted six months after redistricting has been in place with dispatching on eight channels, to adequately evaluate whether Option 3 is still viable and prudent.

RECOMMENDATIONS

We recommend that the Police Department:

Recommendation #1 Hire ten public safety dispatchers plus a senior public safety dispatcher immediately so that training will be completed in time for the start of redistricting in September 1998.

Further, we recommend that the City Council:

Recommendation #2 Authorize two additional permanent positions and three overstrength positions for fiscal year 1997-98 and 1998-99.

Recommendation #3 Authorize the City Auditor to review police radio channel utilization within six months after the implementation of redistricting and of dispatching on eight channels, to determine if Option 3 or other less costly staffing options are viable and prudent.

#98-01 The City Auditor’s Analysis of the Environmental Services Department’s February 19, 1998 Memorandum on the Evaluation of a Lease of the San Jose Municipal Water System (March 1998)

This report summarizes the City Auditor’s analysis of the Environmental Services Department’s (ESD) February 19, 1998 memorandum on the evaluation of a lease of the San Jose Municipal Water System (SJMWS). Based on our analysis of the ESD’s memorandum, we have concluded the following:

1. On balance the estimated financial benefits of leasing the SJMWS do justify pursuing this alternative.
2. The obstacles to leasing the SJMWS that the ESD identified appear to be surmountable.
3. Identified concerns such as water system rates, system maintenance, and other operating issues can be mitigated by carefully crafting an RFP for leasing the SJMWS.
4. Discussions with the United States Department of Interior may resolve certain issues regarding Hetch Hetchy water.
5. By retaining the rights to Santa Clara Valley Water District (SCVWD) water during the term of a lease of the SJMWS, the City can preserve its rights at the end of a lease and protect the SCVWD's tax exempt bond status.

RECOMMENDATIONS

We recommend that the City Administration:

- | | |
|--------------------------|--|
| Recommendation #1 | Initiate discussions with the United States Department of Interior regarding Hetch Hetchy water. |
| Recommendation #2 | Proceed with the issuance of an RFP to lease the SJMWS, in order to determine how much, in fact, the City would receive in an arms-length, equitable lease transaction. |

#98-02 Audit Of The Department Of Parks, Recreation And Neighborhood Services' Petty Cash And Change Funds (June 1998)

The Department Of Parks, Recreation, And Neighborhood Services Can Improve Compliance With Citywide And Departmental Policies And Procedures Regarding Petty Cash And Change Funds

The Department of Parks, Recreation, and Neighborhood Services (PRNS) has 66 Petty Cash and Change Funds at 23 program sites throughout the City of San Jose. From 1994-95 through March 31, 1998, PRNS processed nearly \$800,000 in expenditures through its Petty Cash Funds. PRNS' Administrative Services Fiscal Unit is responsible for reimbursing and replenishing individual program sites' petty cash funds. Our review of PRNS' Petty Cash and Change Funds revealed that fund physical security appears to be adequate. In addition, a recent department reorganization has strengthened PRNS' internal controls over these funds.

Further, our review revealed PRNS is generally in compliance with Citywide and departmental policies and procedures

regarding Petty Cash and Change Funds. However, we also found that

- PRNS' records did not agree with the reported Petty Cash and Change Fund amounts at six sites;
- PRNS did not fill out and return a Petty Cash Fund and Change Fund Confirmation form to the Finance Department for two cash funds as of June 30, 1997;
- 8 sites lacked a copy of PRNS' Fiscal Manual, Volume One – Cash Handling Procedures;
- 4 sites lacked copies of PRNS' revised petty cash procedure;
- 23 of 66 funds did not have Form 142-29 designating a fund custodian;
- 58 of 66 funds lacked documentation that the required semi-annual audit of funds was ever performed. Further, of the 8 funds that had documentation of required semi-annual audits the most recent audit was in October 1994;
- 53 of 66 funds lacked documentation that required periodic Safe Audits were performed. Further, of the 13 sites that had documentation of required Safe Audits the most recent was July 1996;
- 19 of 66 funds did not have adequate segregation of duties;
- 4 of 23 sites' Safe Logs did not have consecutively-numbered pages;
- 13 of 23 sites did not have Safe Combination Acknowledgement Forms on file;
- 19 of 23 sites lacked a current Signature Log for Safe Usage;
- None of the 23 sites had followed the Change of Custodian Procedure for any of the 66 funds that had a change in custodianship; and
- 1 site had an unreported Petty Cash shortage of \$50.

In addition, we found that

- PRNS needs to document internal control procedures it has already implemented and

- Citywide policies and procedures regarding petty cash funds need to be reviewed and revised.

In our opinion, improving compliance with existing Citywide and PRNS policies and procedures and documenting internal control procedures PRNS has already implemented would strengthen internal controls over PRNS' cash funds. In addition, City Administration needs to review and revise Citywide policies and procedures pertaining to Petty Cash and Change Funds to ensure proper cash handling practices.

RECOMMENDATIONS

We recommend that the Department of Parks, Recreation, and Neighborhood Services:

Recommendation #1 Verify the location, program, type, and amount of their Petty Cash and Change Funds. (Priority 3)

Recommendation #2 Ensure each program site has a copy of the departmental Fiscal Manual and a copy of the revised Petty Cash Procedure. (Priority 3)

In addition, the Finance Department should:

Recommendation #3 Ensure an original Form 142-29 is on file for each PRNS Petty Cash and/or Change Fund designated custodian. (Priority 3)

Moreover, the Department of Parks, Recreation, and Neighborhood Services should:

Recommendation #4 Ensure its departmental petty cash file contains a copy of Form 142-29 for each Petty Cash and/or Change Fund designated custodian. (Priority 3)

Recommendation #5 Ensure that independent semi-annual audits of Petty Cash and Change Funds at all PRNS program sites are performed and that the results of those audits are documented and filed appropriately. (Priority 3)

Recommendation #6 Perform periodic Safe Audits at all cash handling locations. (Priority 3)

- Recommendation #7

Require each program site to ensure the Safe Log pages are numbered consecutively. (Priority 3)
- Recommendation #8

Ensure that all PRNS staff given the combination to any safe complete a Safe Combination Acknowledgement Form. Furthermore, PRNS should require the supervisor to retain the form in a separate file. (Priority 3)
- Recommendation #9

Ensure program sites follow the Change of Custodian Procedure. (Priority 3)
- Recommendation #10

Investigate the unreported \$50 Petty Cash Fund shortage, prepare a written report, and if theft is suspected, file a Police Report, as FAM Section 4.5 “Reporting Cash Overages and Shortages” requires. (Priority 3)
- Recommendation #11

Formally document the use of a pre-printed ink stamp for regular petty cash purchases in lieu of Petty Cash Receipt Form 100-32. (Priority 3)
- Recommendation #12

Document the practice of requiring program sites to verify which employees have safe access and establish a new Signature Log for Safe Usage each year. (Priority 3)

Furthermore, we recommend that the Finance Department:
- Recommendation #13

Review and revise FAM Section 5.6 Petty Cash and Change Funds Procedure to show the approved Petty Cash transaction limit increase. (Priority 3)

Finally, we recommend that City Administration:
- Recommendation #14

Revise the City Administrative Manual, Section 202: Purchasing Procedures to show the increased Petty Cash transaction limit. (Priority 3)

#98-03 Audit of the City of San Jose’s Towing Service Agreements (June 1998)

The Tow Truck Contractors Need To Perform Various Tasks To Ensure Compliance With The Tow Service Agreements

The agreements for tow services (Agreements) between the City of San Jose (City) and the six tow companies addresses tow services in connection with the enforcement of regulations regarding traffic, parking, and storage of vehicles. Our audit focused on those areas of the Agreements that contain compliance requirements. Specifically, we noted the following terms have instances of noncompliance:

- Central Communications Center
- I. D. Badges
- Customer Complaint Requirements
- Documents Required to be Posted
- Closed Circuit TV Requirements
- Required Information on Tows
- \$30,874 in Lien Sale Fee underpayments to the City
- \$1,663 in Tow and Impound Fee Schedule underpayments to the City
- \$28,182 in overcharges for labor improperly included in Hazardous Materials and Immobilized Vehicle Premium Fees
- Documents Retained for Vehicles Sold Through the Lien Sale Process

In our opinion, the tow truck companies should correct current instances of noncompliance with the above terms of the Agreements. In addition, the Code Enforcement Division of Planning, Building, and Code Enforcement (Code Enforcement) and the City Attorney's Office should address noncompliance with specific terms of the Agreements.

RECOMMENDATIONS

We recommend that Code Enforcement:

Recommendation #1 Formally designate Metcom, Inc. as the Central Communication Center. (Priority 2)

In addition, we recommend that the tow companies and Metcom:

Recommendation #2 Enter into a contract for the services provided and the associated cost for that service. (Priority 2)

We also recommend that the tow companies:

Recommendation #3 Ensure that their drivers have been issued a City I.D. badge. (Priority 2)

Furthermore, we recommend that the City Attorney's Office:

Recommendation #4 **Prepare an amendment to the Agreements to require the tow companies to fax Code Enforcement when a complaint is filed and either fax or mail the resolution to the City. (Priority 2)**

In addition, we recommend that the tow companies:

Recommendation #5 **Ensure that the postings in their main offices are in compliance with the requirements listed in the Agreement. (Priority 3)**

Recommendation #6 **Retain the monitoring tapes for two months as required in the Agreement. (Priority 3)**

Recommendation #7 **Revise the remittances submitted to the City to include all the information the Agreements require. (Priority 2)**

We also recommend that the Finance Department:

Recommendation #8 **Collect from the tow companies the amounts of underpayment to the City from lien sales. (Priority 2)**

Recommendation #9 **Bill the tow companies for the amount of money the City did not receive from the miscalculation of the \$15 tow fee and impound fees. (Priority 2)**

In addition, we recommend that Code Enforcement:

Recommendation #10 **Submit a directive to the tow truck companies instructing them to discontinue the practice of charging for labor when a tow is involved. (Priority 1)**

Recommendation #11 **Meet with the tow companies to resolve the issue of past labor charges. (Priority 2)**

Recommendation #12 **Consider amending the current Agreements to allow the tow companies to charge for labor when a tow requires extraordinary services. (Priority 2)**

Furthermore, we recommend that the SJPd:

Recommendation #13 **Train officers on the Agreements' requirement that the impounding officer has to authorize in writing on the CHP 180 form the tow companies charging the Hazardous**

**Material and/or Immobilized Vehicle Premium fees.
(Priority 2)**

We also recommend that the City Attorney's Office:

Recommendation #14 **Amend the Agreements to clarify the requirements on the Hazardous Material and/or Immobilized Vehicle Premium fees when a CHP 180 form does not apply. (Priority 2)**

Finally, we recommend that the tow companies:

Recommendation #15 **Immediately begin retaining the CHP 180 Form and preparing an invoice and/or wrecker's receipt for all lien sale transactions. (Priority 2)**

*The City Needs To
Improve Its
Oversight Of The
Agreements For Tow
Services*

During our review of the Agreements between the City and the six City authorized tow companies, we noted that the City's Agreements oversight needs improvement. Specifically, we noted that:

- The administration of the Agreements is not clearly developed or documented;
- The number of tows the tow companies reported did not agree with the number of dispatched tows the communication center, Metcom, Inc. (Metcom) reported; and
- San Jose Police Department (SJPD) and Code Enforcement issued tow fee refunds for which the Agreements make no provision and for which no procedures are in place.

Therefore, Code Enforcement needs to develop and document the procedures necessary to monitor the Agreements. In addition, Code Enforcement needs to ensure that the number of tows the tow companies and Metcom report are in agreement. Furthermore, the City Attorney's Office needs to amend the Agreements to address the issue of refunding tow fees. Finally, the SJPD and Code Enforcement need to develop written procedures that address the refunding of tow fees. By so doing, the City will improve the administration of the Agreements, ensure that the City is paid for the appropriate amount of tows, and ensure that tow fee refunds are authorized and appropriate.

RECOMMENDATIONS

We recommend that Code Enforcement:

- Recommendation #16 Develop and document procedures for monitoring tow company compliance with the terms of the Agreements. (Priority 2)**
- Recommendation #17 Request the tow companies to submit copies of their Metcom bill with their monthly reports. (Priority 2)**
- Recommendation #18 Perform monthly reconciliations of tow company and Metcom reported number of tows. (Priority 2)**

We also recommend that the City Attorney’s Office:

- Recommendation #19 Prepare an amendment to the Agreements addressing the issue of tow fee reimbursements or refunds. (Priority 2)**

In addition, we recommend that Code Enforcement:

- Recommendation #20 Formally document the informal procedures for tow fee reimbursements or refunds. (Priority 2)**

Finally, we recommend that the SJPD:

- Recommendation #21 Expand and formally document the written procedures and provide training for authorizing and processing tow fee reimbursements or refunds. (Priority 2)**

The San Jose Police Department Needs To Develop Procedures To Implement The State Law That Allows Vehicles To Be Towed Under Forfeiture Guidelines

On January 1, 1995, a new state law went into effect, which states that a driver forfeits the vehicle being driven if certain criteria are met. Our review revealed that the SJPD has not authorized any forfeiture tows. Further, the SJPD has not prepared procedures or trained staff on the requirements that need to be met to tow a vehicle as a forfeiture. However, we noted that Agreements between the tow companies and the City contains a section that defines how the consideration the City would receive on a forfeiture tow would be calculated. We also contacted three jurisdictions performing forfeiture tows and obtained information on 1) their procedures, 2) how long they have been conducting forfeiture tows, and 3) how much money they have received from the forfeiture process. Finally, in California Vehicle Code section 14607.4, the State Legislature

found that “*Seizing the vehicles used by unlicensed drivers serves a significant governmental and public interest, namely the protection of the health, safety, and welfare of Californians from the harm of unlicensed drivers, who are involved in a disproportionate number of traffic incidents, and the avoidance of the associated destruction and damage to lives and property.*” In our opinion, the SJPd should conduct a feasibility study on forfeiture tows and report back to the Finance Committee of the City Council by October 1, 1998.

RECOMMENDATIONS

We recommend that Code Enforcement:

Recommendation #22 **Conduct a feasibility study on forfeiture tows and report back their findings to the Finance Committee of the City Council by October 1, 1998. (Priority 2)**

#98-04 An Audit of the Multiple Housing Roster Maintained by the Code Enforcement Division of the Department of Planning, Building, and Code Enforcement (August 1998)

By Implementing Additional Controls Code Enforcement Can Ensure That All Multiple Housing Buildings And Units Are Inspected And Issued Residential Occupancy Permits And Generate As Much As \$263,000 In Additional Revenues

The Code Enforcement Division of the Planning Department (Code Enforcement) inspects multiple housing projects for compliance with the City of San Jose Housing Code requirements. Code Enforcement relies on a Multiple Housing Roster (Roster) to annually bill owners of multiple housing units \$23.60 per unit and to schedule routine inspections. Our audit revealed that Code Enforcement’s Roster of 59,160 multiple housing units is not complete. Specifically, when we compared Code Enforcement’s Roster to the City’s Sewer Service and Use database we identified between 6,670 and 8,940 multiple housing units that should have been on Code Enforcement’s Roster but were not. As a result, Code Enforcement has neither billed the owners of these multiple housing units between \$157,000 and \$211,000 per year nor conducted routine inspections of these units to ensure that they comply with State and local Housing Code requirements. Moreover, we identified 2,200 apartment units that are currently under construction in the City and susceptible to Code Enforcement not receiving information to include them on its Roster. If Code Enforcement billed the owners of these new units and the existing non-permitted units noted above, the City could realize between \$209,000 and \$263,000 in additional annual revenues. These additional revenues could pay for at

least two new Code Enforcement Inspector positions for the Multiple Housing Program.

We also found that additional controls are needed to ensure that all multiple housing units are identified and permitted. Specifically, the Building Division needs to strengthen its controls for notifying Code Enforcement of newly constructed and occupied multiple housing units. In addition, Code Enforcement could improve its controls by periodically reconciling its Roster with other City databases. Further, the City needs to establish a clear definition of when a multiple housing unit is a condominium as opposed to an apartment so that Code Enforcement will know if it should issue a Residential Occupancy Permit and conduct inspections. Finally, we recommend that the City Council consider modifying the Multiple Housing Program to include other types of rental properties.

RECOMMENDATIONS

We recommend that the Code Enforcement Division:

Recommendation #1 Follow-up on multiple housing units without Residential Occupancy Permits that were identified from matching the Multiple Housing Roster to the Sewer Service and Use database beginning with the complexes with more than 100 units. (Priority 1)

We recommend that the Code Enforcement Division and the Building Division:

Recommendation #2 Develop internal procedures to establish and document the process for sharing information on newly constructed multiple housing buildings, including all apartments (three units or more), hotels and motels, guesthouses, residential care facilities, residential service facilities, emergency residential shelters, and fraternities and sororities in San Jose. (Priority 2)

We recommend that the Building Division:

Recommendation #3 Transmit Certificates of Occupancy to Code Enforcement for newly constructed multiple housing buildings. (Priority 2)

We recommend that the Code Enforcement Division:

Recommendation #4 On a regular and periodic basis, reconcile the Multiple Housing Roster with the City’s Sewer Service and Use database. (Priority 2)

Recommendation #5 Define condominiums and use that definition for program purposes. (Priority 2)

Furthermore, we recommend that the City Council:

Recommendation #6 Consider modifying the Multiple Housing Program to include other types of rental properties. (Priority 2)

Additional Controls Are Needed To Ensure That The San Jose Fire Department Inspects All Multiple Housing Facilities And That Owners Of These Facilities Are Properly Billed For Fire Safety Inspections

The Office of the State Fire Marshal requires the San Jose Fire Department (SJFD) to inspect both permitted and non-permitted multiple housing facilities which are categorized as R-1 occupancies. The SJFD inspects for any condition that may cause a fire or contribute to its spread. Annually, each of the SJFD’s 30 fire stations receives a list of SJFD non-permitted multiple housing facilities to schedule September through March inspections. The SJFD’s share of the fee for performing SJFD non-permitted fire inspections of multiple unit housing facilities is \$4.90 per unit, which is part of a \$23.60 Residential Occupancy Permit fee Code Enforcement issues. The SJFD relies upon its fire inspection list to conduct SJFD non-permitted inspections. However, our review revealed that the SJFD’s fire inspection list is incomplete. Specifically, when we compared the SJFD’s fire inspection list to Code Enforcement’s Roster and the City Sewer Service and Use database we found that:

- The SJFD is not inspecting up to 850 multiple unit housing facilities with about 10,800 units that it should be inspecting;
- About 315 multiple unit housing facilities with 3,400 units are paying \$4.90 per unit for SJFD inspection services they do not receive; and
- Owners of about 2,500 multiple housing units are not paying for SJFD inspection services they receive.

A complete and accurate SJFD inspection list will help ensure that owners of multiple unit housing facilities properly pay for fire inspection services and the SJFD inspects all of the multiple unit housing facilities the State Fire Marshal requires.

RECOMMENDATIONS

We recommend that the SJFD:

- Recommendation #7 Add to its fire inspection list those multiple unit housing facilities that were identified from matching the fire inspection list against Code Enforcement’s Multiple Housing Roster and the City’s Sewer Service and Use database. (Priority 1)**

We recommend that the SJFD and the Code Enforcement Division of the Department of Planning, Building, and Code Enforcement:

- Recommendation #8 Develop procedures to ensure that owners of multiple unit housing facilities are properly billed for the fire inspection services they receive. (Priority 2)**

We recommend that the SJFD and the Building Division of the Department of Planning, Building, and Code Enforcement:

- Recommendation #9 Develop internal procedures to establish and document the process for sharing information on newly constructed multiple unit housing facilities. (Priority 2)**

We recommend that the Building Division of the Department of Planning, Building, and Code Enforcement:

- Recommendation #10 Use Certificates of Occupancy to notify the SJFD of newly constructed multiple housing buildings. (Priority 2)**

We recommend that the SJFD:

- Recommendation #11 Periodically compare its inspection list against Code Enforcement’s Roster and add any exceptions to its inspection list when Recommendation #4 (Finding I) is implemented. Until Recommendation #4 is implemented, SJFD should reconcile its inspection list to Code Enforcement’s Roster and the City’s Sewer Service and Use database. (Priority 2)**

#98-05 An Audit of the City of San Jose Sewer Billing Services (October 1998)*The Environmental Services Department Needs To Improve Its Documentation And Supervisory Approval Of \$1.5 Million Per Year In Reductions To Sewer Service And Use Charges*

The City of San Jose Municipal Code (Code) requires the Environmental Services Department (ESD) to compute Sewer Service and Use Charge (SSUC) Fees based upon the volume and strength of sewage discharged into the sanitary sewer system. In most cases, ESD uses metered water consumption to estimate sewage flow. We identified that the ESD has approved reductions to the estimated volume of flow for about 50 monitored industrial locations and about 500 unmonitored commercial locations. Consequently, the ESD reduced SSUC Fees by about \$1.5 million per year. However, we also identified that the ESD made these \$1.5 million in annual SSUC Fee reductions without:

- Written criteria for doing so;
- Written justifications for disparate reductions among similar companies;
- Written notification of the affected companies regarding the flow reductions used to calculate their SSUC Fees;
- Documented supervisory review and approval;
- Regular reviews of flow reduction factors; or
- Showing flow adjustments on customer invoices.

As a result, the ESD may be granting unwarranted SSUC Fee reductions or treating customers inequitably.

We also identified that, for purposes of calculating the capital cost recovery portion of SSUC Fees for monitored industries, the City of San Jose has a long-standing practice of granting an additional 50 percent reduction to the estimated volume of sewage that some seasonal industries discharge into the sanitary sewer system. We estimate that because of this additional 50 percent reduction, the ESD reduces the capital cost recovery portion of the SSUC Fees by an additional \$24,000 per year. As a result, the ESD may be granting SSUC Capital Cost Recovery Fee reductions that are not warranted.

In our opinion, the ESD should improve its documentation and supervisory approval of reductions to SSUC Fees. In addition, the ESD should require installation of water diversion meters and/or sewage flow meters at additional commercial locations in order to increase the accuracy of its sewer flow estimates. Furthermore, the ESD should establish policies and procedures

to verify over 600,000 hundred cubic feet (HCF) or \$840,000 of self-reported water and/or sewage flow billing information during 1997-98. Finally, the ESD should reconsider its longstanding practice of granting 50 percent flow reductions to canneries as part of its pending sewer rate structure review.

RECOMMENDATIONS

We recommend that the Environmental Services Department:

- Recommendation #1

Include a reassessment of its percentage-based flow adjustment factors in its pending sewer rate structure review. (Priority 3)
- Recommendation #2

Document its methodology for estimating sewer flow and its criteria for granting water loss adjustments. In addition, the ESD should annually review existing water loss adjustment factors for both monitored industries and unmonitored companies and require supervisory review and approval of all changes to those factors. (Priority 2)
- We also recommend that the Environmental Services Department and Treasury:
- Recommendation #3

Print explanatory notes on SSUC invoices showing the methodology for estimating sewer flow and the water loss adjustment factor when applicable. (Priority 3)
- We further recommend that the Environmental Services Department:
- Recommendation #4

Implement policies and procedures requiring owners of commercial, industrial, and miscellaneous premises to install sewer meters and/or additional water meters wherever possible. (Priority 3)
- Recommendation #5

Implement policies and procedures to periodically verify self-reported flow information. (Priority 2)
- Recommendation #6

Review its policy of reducing SSUC Capital Cost Recovery Fees by half for users with peak use during dry weather months. (Priority 3)

<i>The Environmental Services Department Exceeded Its Municipal Code Authority When It Reduced Two Sewer Service And Use Charge Invoices By A Total Of \$323,000</i>	<p>The City of San Jose Municipal Code (Code) specifies that the Director of Finance has the authority to correct a disputed Sewer Service and Use Charge (SSUC) Fee. Similarly, the Code authorizes the City Council to adjust SSUC Fees to any particular premises if the charges are unfair or inequitable. However, during our audit we identified two instances where the Environmental Services Department's (ESD) Administrative Services Division adjusted one SSUC Fee by \$306,000 and another SSUC Fee by \$17,000. The Director of Finance and the City Council were not involved or advised of these SSUC Fee adjustments. Further, we could not find any evidence of ESD supervisory review or approval of these SSUC Fee adjustments. In our opinion, the ESD needs to ensure that its staff is aware of the SSUC Fee adjustment Code requirements and develop written procedures to ensure compliance with Code requirements. By so doing, the ESD will help assure compliance with the Code and reduce the risk that its staff could inappropriately adjust customers' bills.</p>
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RECOMMENDATIONS

We recommend that the Environmental Services Department:

Recommendation #7	Ensure that its staff is aware of the SSUC Fee adjustment code requirements. (Priority 2)
Recommendation #8	Establish criteria, procedures, and a supervisory review and approval process for correcting disputed SSUC bills and approving billing adjustments in accordance with the Municipal Code. (Priority 2)

<i>The Environmental Services Department Needs To Improve Its Billing Procedures For Monitored Industrial Sewer Users</i>	<p>In accordance with its sewer rate schedule, the Environmental Services Department (ESD) should bill monitored industrial sewer users monthly on the basis of samples collected during the billing period. Sewer Service and Use Charge (SSUC) Fees for monitored industrial sewer users should be based on estimated or metered flow for the month adjusted for levels of biochemical oxygen demand (BOD), suspended solids (SS) and ammonia (NH3). Our audit of the ESD's billing procedures for monitored industrial sewer users revealed that the ESD</p>
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- Used disparate time periods to calculate flows and levels of BOD, SS, and NH3;

- Used disparate sampling schedules;
- Did not test all monitored companies;
- Arbitrarily excluded individual sampling results;
- Did not provide affected companies with written notification of flow reduction or sampling schedules;
- Erroneously omitted zero sampling results; and
- Made flow information transcription errors.

While the net effect of the above errors and inconsistencies was less than \$10,000, larger and more costly future mistakes could occur and go undetected and uncorrected. Accordingly, the ESD should document the reasons for any deviations from its standard billing practices, implement procedures to identify and correct inadvertent billing errors and omissions, and establish written procedures for handling sampling results. By implementing these procedures the ESD will have added assurance that it is billing its monitored industrial sewer users fairly and appropriately.

RECOMMENDATIONS

We recommend that the Environmental Services Department:

- Recommendation #9** **Establish criteria, procedures, and a supervisory review and approval process for (1) determining the frequency of testing at monitored industrial sites, (2) requesting additional samples, (3) using sample results from prior months for billing purposes, and (4) excluding sample results for billing purposes. (Priority 2)**
- Recommendation #10** **Annually review and notify monitored companies of next year's billing parameters including sampling frequency and analysis, flow estimation, and procedures to follow to resolve billing disagreements. (Priority 2)**
- Recommendation #11** **Update its review and approval procedures to include proofreading data that is used to compute SSUC Fees including sample results and flow information. (Priority 3)**

<i>The Treasury Division Of The Finance Department Needs To Develop Procedures To Ensure That Penalties Are Assessed On All Delinquent Sewer Bills And Past Due Sewer Bills Are Collected</i>	<p>The Administrative Services Division (Administrative Services) of the Environmental Services Department (ESD) prepares monthly sewer and storm drain bills (Sewer Bills) for about 50 monitored industrial sewer users. The Treasury Division of the Finance Department (Treasury) is responsible for assessing City of San Jose Municipal Code (Code) prescribed 10 percent penalties on bills that are delinquent 40 days after the invoice date. However, because of Treasury's reliance on a manual bill tracking system, we identified at least 30 penalties totaling nearly \$22,000 that Treasury did not assess. According to Treasury officials, Treasury collects past due bills by filing suit in Small Claims Court for amounts less than \$5,000 or refers amounts over \$5,000 to the City Attorney's Office for legal action. In addition, the Code prescribes who is authorized to approve the writing-off of bills less than and greater than \$5,000. However, we identified nearly \$63,000 in bills that were at least six months past due. We also identified that the City's Finance Administrative Manual (FAM) is out-of-date with regard to both the dollar limit for Small Claims Court and the dollar limits for approving writing-off uncollectable invoices. In our opinion, Treasury needs to develop written procedures regarding the assessment of penalties on bills and the collection of past due bills to ensure compliance with the Code and the FAM.</p>
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RECOMMENDATIONS

We recommend that Treasury:

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|---------------------------|--|
| Recommendation #12 | Develop procedures to ensure that delinquent sewer penalties are imposed and collected. (Priority 2) |
| Recommendation #13 | Finance should update the FAM Section 4.1 to reflect current dollar limits on Small Claims Court actions, and current Municipal Code limits for approving writing-off uncollectable invoices. (Priority 3) |
| Recommendation #14 | File suit in Small Claims Court for past due Sewer Bills up to \$5,000, refer to the City Attorney any past due Sewer Bills over \$5,000, and write-off uncollectable Sewer Bills in accordance with the City's Administrative Manual. (Priority 2) |

Recommendation #15 Develop formal procedures to ensure that customers are notified of delinquent penalties on Sewer Bills and to ensure that past due Sewer Bills and delinquent penalties are collected. (Priority 2)

The County Has Not Remitted \$26,000 In Sewer And Storm Drain Fees For 1996-97 And 1997-98

The City of San Jose (City) collects most of its sewer and storm drain fees through the County of Santa Clara’s (County) tax assessment rolls. Our review revealed that the County has not remitted \$26,000 in sewer and storm drain fees for 1996-97 and 1997-98. In our opinion, the Finance Department should (1) actively pursue collection of these sewer fees and (2) annually reconcile billings to remittances and pursue any differences.

RECOMMENDATIONS

We recommend that the Finance Department:

Recommendation #16 Initiate collection of any sewer and storm drain fees due from the County. (Priority 2)

Recommendation #17 Annually reconcile its sewer and storm drain billings to Santa Clara County remittances and pursue any differences. (Priority 2)

#98-06 Financial Audit of the Santa Clara County Cities Association (December 1998)

We audited the balance sheets of the *Santa Clara County Cities Association* (SCCCA) as of June 30, 1996, 1997, and 1998, and the related statements of revenues and expenditures, and changes in fund balances, for the years ended June 30, 1996, 1997, and 1998. These financial statements are the responsibility of the SCCCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as

evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCCCA as of June 30, 1996, 1997, and 1998, and the results of its operations for the years in conformity with generally accepted accounting principles.

During our review of cash disbursements, we noted certain check numbers pertaining to voided checks. According to the Executive Director, the voided checks were not retained. To complete the documentation of cash disbursements, all voided checks should be retained as evidence of proper disposition and voiding.

RECOMMENDATIONS

We recommend that the SCCCA:

Recommendation #1 Implement a procedure requiring the retention of voided checks.

#99-01 An Audit of the City of San Jose Police Department Petty Cash, Confidential, and Flash Funds (January 1999)

The Police Department Can Improve Compliance With Policies And Procedures Over Their Petty Cash, Confidential, And Flash Funds

Our review revealed that the City of San Jose Police Department (SJPd) generally has good internal controls in place over their Petty Cash, Confidential, and Flash Funds. The SJPd keeps funds in secure locations in locked or sealed receptacles in locked safes and has written procedures for the use of these funds. However, our audit also found that the SJPd can improve compliance with both Citywide and departmental procedures and reduce excess Confidential Fund balances. Specifically, we found that

- The SJPd did not always submit petty cash receipts to the Fiscal Unit in a timely manner;
- The SJPd has not performed required audits of Confidential Fund or Flash Fund records;
- The SJPd has not prepared required quarterly reports on the use of the Confidential Fund;

- The SJPD did not deposit Confidential Fund checks for as long as 154 days;
- As of September 28, 1998 the Confidential Fund checkbook balance had grown to \$260,000;
- The \$260,000 SJPD Confidential Fund Special Checking Account does not earn interest; and
- As of September 28, 1998, the SJPD had over \$110,500 cash on hand and the SJPD had not used one cash fund containing over \$11,500 for over a year.

By submitting petty cash receipts in a timely manner the SJPD will achieve better control over its Petty Cash Fund. In addition, by auditing and reporting on Confidential and Flash Funds in accordance with Citywide and departmental procedures, the SJPD will have added assurance that these funds are secure, used effectively, and for appropriate purposes. Moreover, timely deposits of Confidential Fund checks will ensure the safety of the City's cash assets and guarantee the availability of funds. Finally, proper administration and monitoring of the Confidential Fund checkbook and all SJPD Confidential cash funds will assure that these cash fund balances are maintained at the levels necessary for the SJPD undercover operations expenditures.

RECOMMENDATIONS

We recommend that the SJPD:

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| Recommendation #1 | Ensure that all petty cash receipts are submitted in a timely manner and contain all required information and supervisory authorizations. (Priority 3) |
| Recommendation #2 | Annually audit all Confidential Funds and Flash Funds on an irregular and unannounced basis. (Priority 2) |
| Recommendation #3 | Ensure that SJPD personnel follow prescribed petty cash procedures. (Priority 3) |
| Recommendation #4 | Submit quarterly reconciliations of the Confidential Fund to the Director of Finance. (Priority 3) |
| Recommendation #5 | Deposit Confidential Fund checks into the SJPD checking account in a timely manner. (Priority 2) |

We recommend that the Finance Department:

Recommendation #6 Evaluate the automatic transfer of Confidential Fund checks to the SJPd checking account. (Priority 2)

We recommend that the SJPd:

Recommendation #7 Return \$200,000 to the General Fund to reduce the SJPd Confidential Fund Special Checking Account balance. (Priority 2)

Recommendation #8 Determine an appropriate amount for each unit's Confidential Fund, monitor and report on Confidential Funds on an ongoing basis, and transfer any excess amounts to other Confidential Funds on an as-needed basis. (Priority 3)

#99-02 An Audit of the Multiple Housing Program (March 1999)

Code Enforcement Has No Assurance That It Performed Required Inspections Of An Estimated 1,200 Multiple Housing Buildings Containing 12,000 Units

The Code Enforcement Division of the Planning Department (Code Enforcement) is supposed to inspect multiple housing buildings for compliance with state housing laws and Municipal Code requirements at least once every six years. Code Enforcement relies on a Multiple Housing Roster (Roster) to annually bill owners of multiple housing buildings \$23.60 per unit and to schedule routine inspections. Our audit revealed that Code Enforcement cannot document that it did routine inspections for all the multiple housing buildings identified in its Roster within the last six years. Specifically, we estimate that Code Enforcement may not have conducted routine inspections for about 1,200 multiple housing buildings totaling 12,000 units, or 20 percent of the buildings listed in its Roster. We also found that Code Enforcement lacks the following controls to ensure that all buildings in its Roster are inspected on a timely basis.

- Current management reports do not provide information on achieving routine inspection goals;
- Inspection results are not properly documented or documented consistently among inspectors;
- Routine inspections can be scheduled on a more timely basis;
- Incorrect dates are shown for last routine inspections; and
- Not all intended inspector positions are utilized.

Finally, Code Enforcement needs to update their workload analysis to ensure that staffing levels are proper and inspector workloads are equitably distributed among inspectors. Without these changes, citizens who live in rental units may be exposed to substandard conditions and some property owners may pay for inspection services they do not receive.

RECOMMENDATIONS

We recommend that Code Enforcement:

- Recommendation #1 Identify those multiple housing buildings that have not had a routine inspection within the last six years. Once those buildings have been identified, Code Enforcement should conduct routine inspections of those buildings on a priority basis. (Priority 2)**
- Recommendation #2 Develop a report that will show the number and percent of buildings that need routine inspections based on the date of last inspection. (Priority 3)**
- Recommendation #3 Develop and distribute to Code Enforcement inspectors guidance on documenting inspection results, including instances where no violations are noted. (Priority 3)**
- Recommendation #4 Adopt a more aggressive approach regarding the scheduling of routine inspections. (Priority 3)**
- Recommendation #5 Validate the date of last action shown in the Multiple Housing Roster. (Priority 3)**
- Recommendation #6 Fully utilize all inspector positions intended for the Multiple Housing Program, change the funding for one inspector position from Solid Waste Enforcement Fee-funded to Residential Occupancy Permit Fee-funded, and evaluate using a different Solid Waste Enforcement Fee-funded inspector position for the Multiple Housing Program. (Priority 2)**

- Recommendation #7** **Update their workload analysis in order to ensure proper staffing to meet their inspection schedule. When updating its workload analysis, Code Enforcement should consider the following items:**
- **An equitable distribution of workload among the Code Enforcement inspectors;**
 - **On a pilot basis, monitoring and recording actual inspection results for a specified timeframe;**
 - **Basing inspector workload measures both on a per building and per unit basis; and**
 - **Including the additional 362 multiple housing buildings and 5,411 units identified as not being on the Roster. (Priority 2)**

Review of July 1997 Property Tax Remittances (August 1997)

The purpose of this memorandum is to present a status report on the Audit of the Santa Clara County's Property Tax Allocation Process, which the City Auditor's Office started in November 1996.

On July 18, 1997, the Santa Clara County's Controller-Treasurer Department sent wire transfer remittances to the City of San Jose and the City's Redevelopment Agency totaling \$833,137 and \$2,753,155, respectively. Santa Clara County sent these payments as the final clean-up adjustments for the secured property tax apportionments for 1996-97. We compared the total secured property tax remittances for 1996-97 for the City and the City's Redevelopment Agency to the respective budget estimates. Our analytical review showed that the total remittances for both the City and the City's Redevelopment Agency were significantly less than the budgeted estimates for both agencies.

The Santa Clara County Controller-Treasurer Department recomputed the final tax apportionments for the 1996-97 fiscal year and the City and the City's Redevelopment Agency received additional remittances of \$3,512,867 and \$3,457,629 respectively or a total of \$6,970,496. This brings receipts for both the City and the Redevelopment Agency to or above budgeted estimates for 1996-97.

Review of the ERAF Property Tax Overshift (March 1998)

During our audit of the Santa Clara County's Property Tax Allocation Process, we identified that the County had "overshifted" \$815,689 of San Jose property taxes to the Educational Revenue Augmentation Fund (ERAF) for 1992-93 through 1996-97.

ERAF is a fund created by State legislation in 1993 to meet the State's obligation to fund schools. Under ERAF, a portion of the property tax revenues allocated to jurisdictions is transferred from counties, cities, and special districts to school districts, the County Office of Education and community colleges. Each county is responsible for following State guidelines in determining the tax shift amounts from the County, the cities, special districts, and the Redevelopment Agencies.

On February 25, 1998, the City Auditor sent a memorandum to the Director of the Santa Clara County Finance Agency requesting that the County reimburse the City \$815,689 for the ERAF over shift. On March 5, 1998, the Mayor in her 1998-99 Operating Budget Message directed the City Manager to work in conjunction with the County Administration and the City Auditor's Office to expedite the ERAF over shift refund. On March 11, 1998, the County wire transferred the City \$815,689 to reimburse the City for the ERAF over shift.

Letter regarding Property Tax-based Payments Made by the Santa Clara County Central Fire Protection District (November 1998)

The purpose of this letter is to present a status report on the Audit of the Santa Clara County's Property Tax Allocation Process, which we started in November 1996. As a result of this phase of our audit, 1997-98 City revenues were increased by \$535,535.

As part of our audit, we reviewed the property tax-based payments made by the Santa Clara County Central Fire Protection District (CFPD) for fire protection services provided by the City of San Jose to certain unincorporated areas under the jurisdiction of the CFPD.

During our review, we noted that the City's 1997-98 estimated contractual revenues from CFPD were reduced from

\$2,900,000 to \$2,275,000. During the same period, Santa Clara County was experiencing significant growth in assessed property valuations. The Santa Clara County Controller's Office explained that the reduction in the CFPD payments to the City were due to property tax apportionment errors in which the CFPD received a double share of property taxes resulting from assessed valuation growth in 138 Tax Rate Areas (TRA), which included some TRAs the City of San Jose services.

We met with the Santa Clara County Tax Apportionment Manager and staff from the CFPD and the Santa Clara County Controller's Office to ascertain the methodology used to compute the CFPD's payments to the City. As a result of our meetings, the CFPD agreed to review the calculations. Consequently, the CFPD increased the 1997-98 fire services payments by \$535,535 to \$2,810,437.

RECOMMENDATIONS

We recommend that the Finance Committee

Recommendation #1 Include in the City Auditor's Annual Workplan an annual audit of the computation of the CFPD payments to the City of San Jose. (Priority 1)

Sales and Business Tax Audits

Our objectives in the audit of sales and business taxes are to identify:

- San Jose retail businesses that do not file sales tax returns;
- Misallocation of the local portion of the sales taxes paid by San Jose businesses; and
- San Jose businesses that have not paid or have underpaid the San Jose business tax.

In conducting our ongoing audit of sales and business taxes, we performed the following procedures:

- Compared the San Jose telephone and other directories with sales tax and business tax databases to ensure that companies and individuals doing retail business in San Jose were using a San Jose sales tax identification code;

- Visited business locations at the City of San Jose's periphery and compared these businesses' locations to the sales tax and business tax databases to ensure that businesses within the San Jose borders were using a San Jose sales tax identification code and had a current San Jose business license;
- Called businesses to request copies of their sales tax returns;
- Reported any identified nonfiling or misallocation of sales taxes to the State Board of Equalization;
- Reported any nonpayment of San Jose business taxes to the Finance Department for collection. We identified these businesses by comparing to the business tax database (1) the San Jose telephone directory, (2) fictitious name listings from the County, (3) other directories, (4) the contractor database in the City Clerk's office, (5) the Department of Information Technology printout--SIC property owner list, (6) real property databases, and (7) known out-of-town consultants who conduct business with the City; and
- Contacted the personnel departments or representatives of businesses and confirmed the average number of full- and part-time employees of the business. We reported to the Finance Department the businesses that we identified in which the number of full-time equivalent employees differed from the number recorded in the City's business tax database.

Our ongoing audit of sales and business taxes produced the following results:

Quarter Ended	San Jose Businesses Identified As Not Properly Reporting Sales and/or Business Taxes	Additional Sales and Business Tax Revenues Identified
June 30, 1997	418	\$448,407
September 30, 1997	832	\$754,411
December 31, 1997	938	\$589,879
March 31, 1998	810	\$725,406
June 30, 1998	690	\$336,923
September 30, 1998	484	\$381,857
December 31, 1998	435	\$563,889
March 31, 1999	219	\$420,935
TOTALS	4,826	\$4,221,707

Follow-up of Audit Recommendations

In accordance with the City Auditor's workplan, we prepared reports of the status of open recommendations. These reports were prepared quarterly until the period ended July 31, 1998. Since then, the reports have been prepared semi-annually. To prepare the follow-up reports, we met with department staff, reviewed department assessment of audit status, and reviewed documentation provided by departments on the implementation of audit recommendations.

The following summarizes the results of our follow-up reviews:

Period	Number of Recommendations Implemented or Resolved
Three months ended 7/31/97	12
Three months ended 10/31/97	14
Three months ended 1/31/98	11
Three months ended 4/30/98	2
Three months ended 7/31/98	11
Five months ended 12/31/98	38
TOTAL	88

City Auditor Website

In 1996, the City Auditor's Office established a Website that included the following menu items:

- Auditing City Departments and Programs
- Benefits to the City of San Jose
- City Auditor's Biography
- City Charter Authority
- List of Issued Audit Reports
- Sales and Business Tax Auditing

Since its inception, the City Auditor's Office has added the following menu items to its Website:

- Audit Recommendations Follow-up
- Citywide Risk Assessment
- External Quality Control Reviews of the City Auditor's Office
- Office Procedures
- Project Milestones
- Risk Assessment
- Risk Assessment Library

As of June 30, 1999, the City Auditor's Office has averaged 10,000 hits per month on its Website from individuals and organizations in nearly every state in the United States and more than 20 foreign countries.

Audit organizations from around the world have recognized and praised the City Auditor's Website for its innovation and quality and its contribution to the auditing profession.

The City Auditor's Website address is
www.ci.san-jose.ca.us/auditor